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ABSTRACT

Two issues were analyzed--the changing characteristics of early pension recipients and the costs of early retirement. The analyses covered men and women aged 50 and older and were based primarily on data from the Census Bureau's March 1984 Current Population Survey. Findings showed that the percentage of the population receiving employer-sponsored pensions at ages younger than 65 had increased rapidly. Individuals with employer-sponsored pension income had much lower labor-force participation rates than nonrecipients of the same age and sex. While the majority of early pension recipients who did not work appeared to be voluntarily retired, a significant minority below age 62 had retired due to disability or poor health. Early retirement represented a potentially significant loss in federal tax revenues. Some recent legislative changes reduced incentives for early retirement and removed obstacles to older worker employment. Additional proposed changes would further remove some financial incentives to retire early in public and private plans. The importance of the adoption of further public policies to encourage later retirement was seen as depending not only on future economic growth but also on unforeseeable economic or demographic circumstances that might alter the current view of what policies will be needed in the next century. (Appendixes include additional data and information on methodology.) (YLB)

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United States General Accounting Office

GAO

Report to the Chairman,
Select Committee on Aging
House of Representatives

July 1986

RETIREMENT BEFORE AGE 65

Trends, Costs, and National Issues

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-222718

July 16, 1986

The Honorable Edward Roybal
Chairman, Select Committee on Aging
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information on trends in the receipt of employer-sponsored pensions before age 65, on characteristics of early pension recipients, and on tax revenue losses due to early retirement.

The report documents the trend toward earlier receipt of employer-sponsored pensions, shows that most pension recipients do not take other jobs, and estimates both Social Security and income tax revenue losses due to voluntary early retirement. The report also discusses some of the issues involved in the early retirement trend and some of the legislative proposals to reduce incentives for early retirement and reduce obstacles to older worker employment.

As arranged with your office, we plan no further distribution until 30 days from the date of this report unless you publicly announce its contents earlier. At that time copies will be sent to various congressional committees and subcommittees concerned with aging, pensions, and employment opportunities as well as to the Department of Labor, the Department of Health and Human Services, and other interested parties.

Sincerely yours,

Richard L. Fogel

Richard L. Fogel
Director

Executive Summary

Purpose

The federal government has no consistent policy regarding retirement age. On the one hand, the 1983 amendments to the Social Security program will gradually raise the normal retirement age to 67 and reduce the level of benefits for individuals who retire earlier. On the other hand, federal policy offers favorable tax treatment for employer-sponsored pensions that allow and encourage retirement at ages 62 and younger and Individual Retirement Accounts and Keogh plans, which allow funds to be withdrawn for retirement without penalty at age 59-1/2.

Retirement age has become an issue because of demographic projections that show an increase in the older population and a decline in the labor-force participation of older workers. Together these trends raise concerns as to whether the future working population will be able to support a growing number of retirees, particularly if the economy grows more slowly than in the past. If this occurs, retirement benefits might have to be reduced or retirement eligibility ages increased in order to ease the tax burden on future workers.

Given these demographic trends, there is increasing interest in the age when individuals retire. Data are, however, limited as to who is receiving employer-sponsored pensions early and why, and whether these individuals take other jobs or stop work altogether. The federal cost implications of early pension receipt are also unknown. To begin to address these information gaps, as part of a broader review of retirement income policy, the House Select Committee on Aging asked GAO to examine the trends and costs related to the decision to retire early.

Background

The American retirement system is composed of a multitude of programs that provide pensions or Social Security benefits to specific populations. Some of these programs have been initiated directly by federal legislation; others have been influenced by tax incentives and regulatory provisions.

Until recently, the age of retirement was not a major issue in retirement legislation. Instead, the primary objective has been to ensure an adequate level of retirement income for the nation's elderly; at times, a second objective has been to encourage older workers to retire in order to make room for younger ones. Over time, numerous features were incorporated in retirement plans that offered employees the opportunity and financial incentives to leave their jobs at ages younger than 65.

At the request of the Committee, this report presents information on early retirement for individuals who have employer-sponsored pensions, including private, federal, state and local, and military plans. Early retirement is defined as both having a pension and leaving the labor force before age 65. The information presented is based on GAO's analyses of data from the Census Bureau's Current Population Survey conducted in March 1984, 1979, and 1974.

Results in Brief

GAO's analyses show that (1) the percentage of the population receiving employer-sponsored pensions at ages younger than 65 has increased rapidly, (2) individuals with employer-sponsored pension income have much lower labor-force participation rates than nonrecipients of the same age and sex, and (3) the resulting earlier retirement represents a potentially significant loss in federal revenues. These findings raise questions about the future financing of retirement benefits for persons who are living longer and retiring earlier. They also raise questions about federal policy regarding retirement eligibility age.

Some recent legislative changes have reduced incentives for early retirement and removed obstacles to older worker employment. Additional changes have also been proposed that would further remove some of the financial incentives to retire early in public and private plans. Uncertainty, however, over long-term economic and demographic projections raises questions as to what public policy changes may be needed.

GAO's Analysis

Early Pension Receipt Is Increasing

Early receipt of employer-sponsored pensions has become increasingly common. Pension recipients as a percentage of the total population in the age group 50 to 64 nearly doubled between 1973 and 1983. Among both men and women, pension receipt at younger ages has grown faster than among individuals age 65 and over.

Early Pension Recipients Stop Working

One question about the trend in early pension receipt is the extent to which pension recipients remain in the labor force (either taking another job or looking for work). GAO's analyses found that labor-force participation of early pension recipients declined with age from over

40 percent among civilian recipients at ages 50 to 54 to less than 20 percent at ages 62 to 64.

In addition, all male pension recipients age 55 and older participate in the labor force at less than half the rate of nonrecipients. Among women, pension recipients were also much less likely to be in the labor force than nonrecipients. Below age 62, the percentage of pension recipients in the labor force also declined over the past decade.

Some Individuals Retire Early for Health Reasons

While the majority of early pension recipients who did not work appeared to be voluntarily retired, a significant minority below age 62 had retired due to disability or poor health. Among male pension recipients who did not work in 1983, health or disability was cited as the primary reason by over half of those under age 55 and a third of those age 55 to 61. In addition, some pension recipients who remained in the labor force and were looking for work were unable to find employment. About 11 percent of men and 8 percent of women pension recipients age 55 to 61 who were in the labor force were unemployed in 1984.

Estimated Tax Losses From Early Retirement

Another question about the decline in labor-force participation of pension recipients relates to the cost in reduced tax revenues. Precise estimates of the level of these revenues cannot be developed. However, GAO developed illustrative estimates of added tax revenues if voluntarily retired persons returned to work. These estimates represent additional net revenue gains for 1983 only. For example, the added tax revenues if between 10 and 25 percent of voluntarily retired pension recipients age 50 to 64 took jobs could range from $550 million to $1.4 billion.

Changes in Retirement Age Policy

While the trend in pension plans has been toward encouraging early retirement, there has also been a growing awareness of the increasing costs of financing the retirement benefits of persons who are living longer and retiring earlier. Coupled with a concern over age discrimination against older workers, this has resulted in certain legislative changes that encourage participation of older persons in the labor force.

One recent change is the 1983 amendments to the Social Security Act, which raise the age for normal retirement benefits. The amendments also contain financial incentives to work longer and disincentives to take benefits earlier. The Age Discrimination in Employment Act of 1967 and

its 1978 amendments, while primarily intended to prohibit discrimination, were also aimed at extending employment opportunities for older workers

Additional changes have been proposed that would reduce early retirement incentives in both public and private plans. How important it will be to adopt further public policies to encourage later retirement will depend not only on future economic growth but also on unforeseeable economic or demographic circumstances that might alter the current view of what policies will be needed in the next century. In the short term, however, policies may be needed to address the problems of individuals who must retire early due to poor health or inability to find work.

Recommendation

GAO is making no recommendations.

Agency Comments

GAO did not obtain comments on this report.

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Abbreviations

CPS	Current Population Survey
ERIP	early retirement incentive program
GAO	General Accounting Office
IRA	Individual Retirement Account
OASDI	Old Age, Survivors', and Disability Insurance
SIPP	Survey of Income and Program Participation

Introduction

The federal government has no consistent policy regarding retirement age. On the one hand, the 1983 amendments to the Social Security program will gradually raise the normal retirement age to 67 and reduce the level of benefits for individuals who retire earlier. On the other hand, federal policy offers favorable tax treatment for employer-sponsored pensions that allow and encourage retirement at ages 62 and younger and Individual Retirement Accounts (IRAs) and Keogh plans, which allow funds to be withdrawn for retirement without penalty at age 59-1/2.

Retirement age has become an issue because of demographic projections that show an aging population and a decline in the labor-force participation of older workers. Together these trends point to a decreasing ratio of workers to retired persons; they also raise concerns as to whether the future working population will be able to support a growing number of retirees.

Overview of the Retirement System

The American retirement system is composed of a multitude of programs that provide pensions or Social Security benefits to specific populations. Some of these programs have been initiated directly by federal legislation; others have been influenced by tax incentives and regulatory provisions.

About 56 percent of civilian, nonagricultural wage and salary workers are covered by employer-sponsored pension plans.[1] These include almost 800,000 private pension plans, over 6,500 state and local government plans, and the Civil Service Retirement System and various smaller plans covering federal workers. In addition, the military retirement system covers about 2 million active duty members of the armed forces. Each of these pension plans has its own rules and structure, creating a wide array of factors governing retirement for different groups of workers.

Many nonfederal employers also offer capital accumulation plans in addition to their employee pension plans; these include savings and investment plans (more commonly known as thrift plans) and various types of deferred compensation plans. Thrift plans provide for employer contributions to match some proportion of employees' contributions toward their retirement. The employer contributions and investment

[1] Andrews, Emily S., The Changing Profile of Pensions in America. (Washington, D.C.: Employee Benefit Research Institute, 1985, p. 14.

income are not taxable until the funds are withdrawn. Deferred compensation plans, such as those created under section 401(k) of the Internal Revenue Code, differ from thrift plans in that the employee contributions are also tax deferred.[2]

In addition, a number of legislative provisions allow special tax treatment for individuals' contributions to their own retirement. For example, almost all workers can make tax-deferred contributions into IRAs. A total of 15.4 million taxpayers, or an estimated 15 percent of eligible workers, contributed to IRAs in 1984.[3] Similarly, self-employed persons can make tax exempt contributions to Keogh plans to provide for their retirement income. In 1983, about 440,000 self-employed individuals had Keogh plans.[4]

Finally, Social Security is the only retirement income system for many workers who lack employer-sponsored pension coverage; it also represents an important source of retirement income for persons covered by other plans. At present Social Security covers over 90 percent of all workers.

The Retirement Income System Is Subsidized by the Federal Government

All of the varied programs that make up the retirement system are subsidized, directly or indirectly, by the federal government. Employer contributions to pension plans, and the related investment income, are not taxed until they are disbursed as benefits. Except for high-income beneficiaries, employer contributions to Social Security are not subject to tax even when benefits are received.[5] Capital accumulation plans, IRAs, and Keoghs are also indirectly subsidized by the federal government through preferential tax treatment.

[2]Andrews, p. 83. About 4.8 million private sector employees, or less than 7 percent of private sector employees, reported working for an employer who offered a 401(k) plan in 1983.

[3]"Retirement Income and Individual Retirement Accounts," Employee Benefit Research Institute Issue Brief, Number 52, March 1986, p. 3.

[4]Andrews, p. 87.

[5]Half of Social Security benefits are subject to tax for married couples whose adjusted gross income is greater than $32,000 and for single taxpayers whose adjusted gross income is greater than $25,000. At present, relatively few beneficiaries have incomes above these levels. For example, in 1983, about 15 percent of taxpayers age 65 and over had adjusted gross incomes of $30,000 or more. Individual Income Tax Returns 1983, Internal Revenue Service, p. 64.

Revenue loss estimates for tax expenditures for all of those plans in fiscal year 1986 were made by the Office of Management and Budget at[6]

- $53 billion for private pension plans and state and local plans,
- $14 billion for IRAs,
- $2.1 billion for Keogh plans, and
- $19 billion for Social Security (OASDI) and Railroad Retirement system benefits.

In addition to these tax expenditures, the Social Security system was expected to disburse about $200 billion in retirement and disability benefits in 1986, and expenditures for federal employee retirement and disability programs were expected to be about $24 billion for civilian employees and $18 billion for military personnel.[7]

Retirement Eligibility Ages Differ Across Programs

Given the diversity among the different retirement programs, it is not surprising that there are many differences in the rules governing their operations and participation requirements. One major difference is in the age of eligibility for benefits.

Since its inception in 1935, the Social Security system has had a normal retirement age (the earliest age of eligibility for full benefits) of 65. Because of the importance of Social Security in the total retirement system, 65 has been considered the traditional retirement age in the United States. However, workers can retire as early as age 62 and receive reduced Social Security benefits. The 1983 Social Security Amendments provided for the first change in the normal retirement age since the program's inception. The age will gradually rise to 67 by the year 2027; early retirement will still be permitted at age 62, but with a greater reduction in benefits than at present.

While the Social Security eligibility age is slated to increase, many employer-sponsored pensions currently encourage retirement at younger ages. Most participants in employer-sponsored pension plans can receive full benefits at ages younger than 65. In a previous report, we found that the majority of employees in private sector and state and local

[6]Executive Office of the President, Office of Management and Budget, Special Analyses, Budget of the United States Government, Fiscal Year 1987. (Washington, D.C.: Government Printing Office, 1986), p. G-45.

[7]Executive Office of the President, Office of Management and Budget, Budget of the United States Government, Fiscal Year 1987 (Washington, D.C.: Government Printing Office, 1986), pp. 5-114, 5-127.

plans could receive unreduced pension benefits by age 62, subject to a service requirement of up to 30 years. Moreover, retirement with reduced benefits under those plans is often permitted at age 55.[8]

The Civil Service Retirement System currently allows federal workers to retire with full benefits at age 55 with 30 years of service and does not provide for earlier nondisability retirement. The President recently signed a bill approving a retirement program for new federal workers hired after December 31, 1983, which will gradually raise the minimum retirement age to 57. In contrast, the military system provides full benefits upon completion of 20 years of service regardless of age. The Congress set 59-1/2 as the age at which individuals can withdraw funds from their IRAs or Keogh plans without penalty.

The Aging of the Population Raises Questions About Early Retirement Eligibility

As discussed, there is a wide diversity in the eligibility age for benefits across the different retirement programs. In some cases this diversity results in the federal government supporting, either directly or indirectly, both later and earlier retirement. This inconsistency in federal policy is significant given the demographic trends that show an aging population and a decline in the ratio of workers to retired persons.

Life Expectancy Is Increasing

The population is aging due to increased life expectancy and lower birth rates. Because of the large number of persons born in the two decades after World War II (the "baby boom" generation), a rapid growth is projected in the elderly population after the turn of the century. In addition, projected increases in life expectancy will also increase the number of older persons. A man who turned 65 in 1983 could, on average, expect to live to be 79.5 years old, about 2-1/2 years longer than his 1940 counterpart. A woman turning 65 in 1983 could expect to live to 83.8, about 5-1/2 years longer than her 1940 counterpart. Based on a continuation of current trends, the Office of the Actuary of the Social Security Administration has projected that average life expectancy at age 65 will increase to 81.1 years for men and 86.1 years for women by 2010.[9]

[8]U.S. General Accounting Office, Features of Nonfederal Retirement Programs (GAO/OCG-84-2,) June 26, 1984.

[9]Wade, Alice H., Social Security Area Population Projections, 1985, Actuarial Study No. 95, Social Security Administration, Department of Health and Human Services, October 1985, p. 23. The data are presented from the Alternative II projections, which are considered to be the most likely to occur.

The Labor-Force Participation of Older Men Is Declining

Men's labor-force participation has also declined over the past 25 years. As shown in figure 1.1, the labor-force participation rate for men age 60 to 64 began to decline in the late 1950's; the decline accelerated sharply in the 1970's, particularly among those age 62 to 64.[10] In the 1960's the labor-force participation rate for men age 55 to 59 began to decline noticeably, and the participation rate for men age 50 to 54 showed some decline.

Among women the trend is less clear. Women with long-term jobs may be leaving the labor force earlier, but any such trend has been largely offset by increasing labor market entry. Even so, the labor-force participation of women age 60 to 64 declined slightly in the 1970's, while that of women age 55 to 59 grew much more slowly than in the past.

The increase in life expectancy and the decline in labor-force participation means that the amount of time spent in retirement is increasing. This is occurring at the same time that the projected number of workers is likely to be affected by lower birth rates. Present indications are that birth rates, which began to decline in the 1960's, will remain relatively low, thereby holding down the future numbers of young people.[11]

The Ratio of Workers to Retirees Is Declining

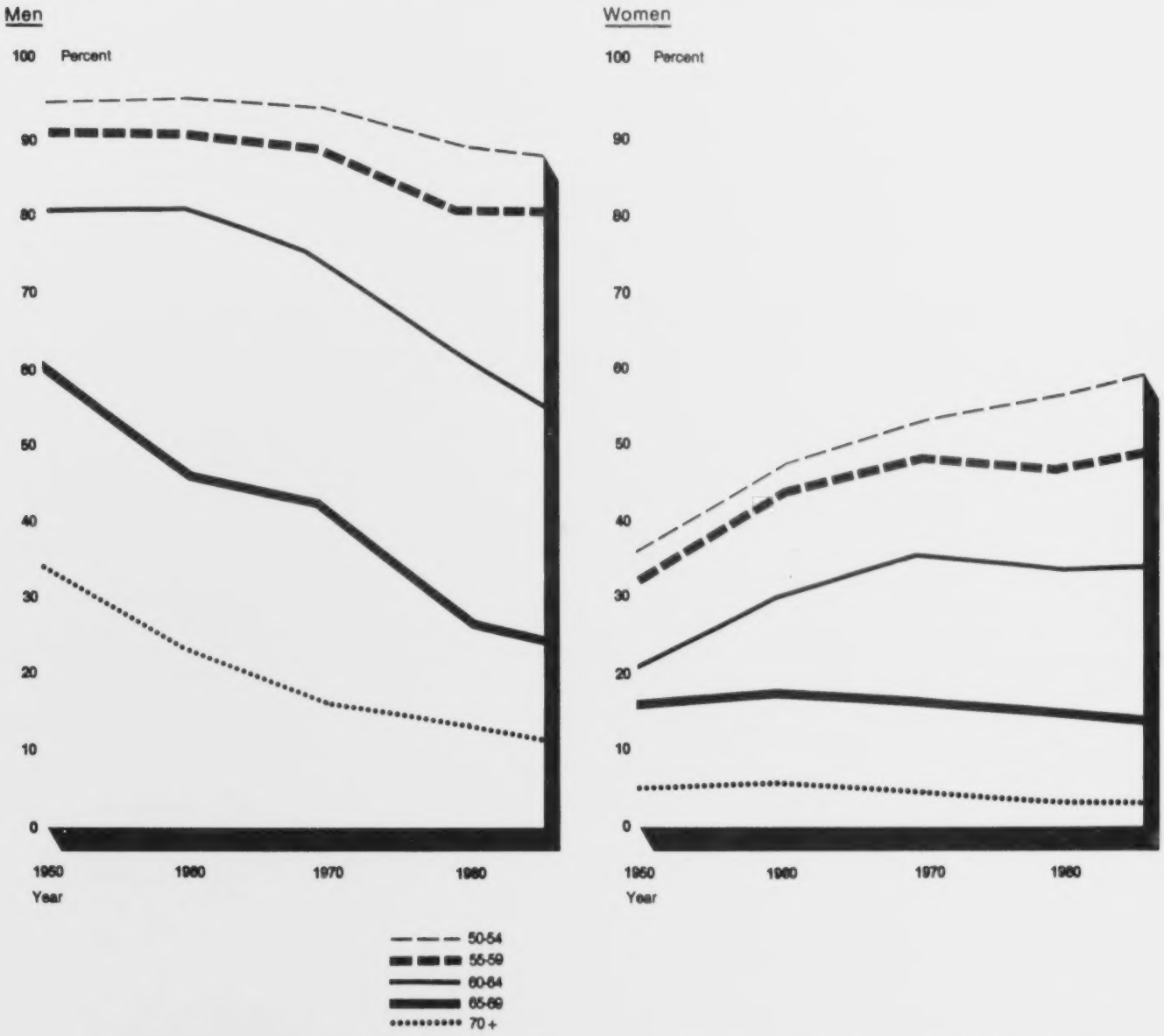
The aging of the population will mean that there are fewer workers to support each retiree through Social Security and Medicare. The number of workers paying into the Social Security system to support each beneficiary has dropped from 5.1 in 1960 to 3.3 in 1985. For the next 20 to 25 years, the ratio of workers to beneficiaries is expected to remain above 3, after which it may gradually decline to about 2 over the 20 years when the baby boom generation retires.[12]

[10]Between 1970 and 1985 the labor-force participation rate of males age 62 to 64 decreased from 69 to 46 percent as compared with a decrease from 83 to 69 percent among males age 60 to 61. Committee on Ways and Means, U.S. House of Representatives, Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, 1986 Edition (Washington, D.C.: U.S. Government Printing Office, 1986), p. 77.

[11]Reasons for projections of continuing low fertility may be found in U.S. Bureau of the Census, Current Population Reports, Series p. 25, No. 952, Projections of the Population (Washington, D.C.: U.S. Government Printing Office, 1984), pp. 15-17.

[12]Board of Trustees, Federal Old-Age Survivors Insurance and Disability Insurance Trust Funds, The 1986 Annual Report of the Board, Washington, D.C., March 31, 1986, p. 5.

Figure 1.1: Labor-Force Participation Rates by Age, for Men and Women—1950-84



Source: Actuarial Study No. 94, Jan 1985 - SSA Pub No. 11-11541 and Employment and Earnings, BLS/CPS , 1985

These demographic changes will also have an impact on Medicare's Hospital Insurance Program. Currently there are four covered workers supporting each hospital insurance enrollee. This ratio is predicted to decline rapidly early in the next century—reaching slightly more than two covered workers supporting each enrollee by mid-century.[13]

Some researchers question whether worker/retiree ratios are an appropriate measure of the economic burden of the older population to the younger. They believe that the lower growth of the child population in the next three decades will offset the increase in the number of elderly individuals so that the total number of dependents will remain stable.[14] It is likely, though, that even if the overall dependency burden on the working age population does not increase, additional federal revenues to support the dependent population may become necessary early in the next century.[15] This is because the support costs for older persons tend to be greater than for children and more typically represent federal responsibilities. In contrast, expenditures on children are more typically paid for by state and local governments and privately.

While additional federal revenues are expected to be needed to support the increasing number of retirees, particularly after 2010, the extent to which the working population will be willing to shoulder this burden will depend, in part, on the economy's rate of growth. If per capita income grows in the future as rapidly as it did in the 1950's and 1960's, workers may be willing to have their taxes increased to support the retired population because, even after such a tax increase, average income levels prevailing by the time an increase would be needed would be substantially higher than today's. However, if economic growth is slow, retirement benefits would more likely need to be reduced or retire-

[13]Board of Trustees, Federal Hospital Insurance Trust Fund, The 1986 Annual Report of the Board, Washington, D.C. March 31, 1986, p. 11.

[14]Tomorrow's Elderly, a report prepared by the Congressional Clearinghouse on the Future, House Select Committee on Aging, October 1984, p. 16. In fact, the combination of child dependency and aged dependency, representing the overall dependency burden on the working age population, declined sharply between 1970 and 1980 (from 78 per 100 persons to 65) and is expected to show a modest further decline in the next few decades (to 62 in 2000). It is then projected to increase sharply from 2010 to 2030 (to 75 in 2030). Siegel, Jacob S., and Maria Davidson, Demographic and Socioeconomic Aspects of Aging in the United States, Special Studies, Series P-23, No. 138, August 1984, Bureau of the Census.

[15]Palmer, John L., and Stephanie G. Gould, "The Economic Consequences of an Aging Society," Daedalus, Vol. 115, No. 1, Winter 1986, p. 314.

ment eligibility ages increased in order to avoid unacceptable increases in the tax burden on future workers.[16]

Objectives, Scope, and Methodology

Because of concerns about the implications of a growing number of retirees, there is increasing interest in the age when individuals retire. However, while information is available on the ages when most Social Security beneficiaries begin to receive benefits (primarily between the ages of 62 and 64), there are currently limited data on the changes occurring in the ages when workers receive employer-sponsored pensions. In addition, information is limited as to who is receiving pensions early and why, and whether individuals who take early pensions then take other jobs or stop work altogether.[17] The cost implications of early pension receipt are also unknown.

In June 1984 the House Select Committee on Aging asked us to examine the trends related to the decision to retire early (see app. I). In defining early retirement, we found a lack of agreement on what retirement means. Though widely used, retirement has a variety of definitions, including receiving a pension; leaving the labor force after some age, such as 50, 55, or 60; and a person's own perception of whether he or she is retired.[18] In our analyses of retirement trends in this report, early retirement is defined as both having a pension and leaving the labor force before age 65.

In discussions with the Committee, we agreed to focus our work on: (1) the characteristics and labor-force participation rates—and changes over time—of pension recipients age 50 and older; (2) the cost of early retirement; (3) a review of the incentives and disincentives in retirement plans for early and delayed retirement; (4) the distribution of these incentives across the population; and (5) the extent of workers' knowledge of these provisions.

[16]Palmer and Gould, pp. 311-315.

[17]Some research does point to declining ages of pension receipt. A 1985 Department of Labor study showed a decline in median age of retirement from 65 in the 1960's to 62 in the 1970's. However, only private employers were considered. See U.S. Department of Labor, Findings from the Survey of Private Pension Benefit Amounts (Washington, D.C.: U.S. Government Printing Office, 1985), pp. 20, 76.

[18]Parnes, Herbert S., and Lawrence J. Less. "The Volume and Pattern of Retirements, 1966-1981," in Retirement Among American Men, Herbert S. Parnes, et al. (Lexington, Mass.: D.C. Heath, 1985), pp. 55-60.

This report presents the results of our analysis on the first two issues—the changing characteristics of early pension recipients and the costs of early retirement. A second report will present information on the last three issues.

The specific objectives for this report are as follows:

- Identify, by age, how many people are receiving pension income, what their characteristics are, and how this has changed over time.
- Determine whether these individuals are employed, unemployed, or out of the work force and whether this has changed over time.
- Determine the extent to which disability accounts for pension receipt and early labor-force withdrawal.
- Identify the costs of early retirement in terms of lost federal tax revenue.

Our analyses cover men and women age 50 and older and are based primarily on data from the Census Bureau's March 1984 Current Population Survey (CPS). The CPS is a monthly, nationally representative survey of about 60,000 households that collects detailed information on labor-force status, demographic traits, and income of each household member. Our data set contains information on all persons age 50 and over regardless of marital status.[19] March 1984 CPS data were used because they provided the most current pension income data available when these analyses were begun. To analyze trends in pension receipt and labor-force participation, the March CPS data from 1979 and 1974 were also used.

The analyses focus on employer-sponsored pension sources, including private, military, state and local, or federal civilian pensions. Social Security, Railroad Retirement, and Supplemental Security Income are not included as pension income in the CPS. In addition to employer-sponsored pensions, private pension income in the CPS includes regular payments from annuities or paid-up insurance policies; income from IRAs and Keogh plans; and "other sources of retirement income." Because IRAs and Keogh plans are relatively new and cover a much smaller percentage of workers than regular employer-sponsored pension plans, most of the pension income reported in the CPS is probably attributable to regular pensions. Both the relatively small number of participants and the small amounts that could be invested per year make it unlikely

[19]When both spouses are within the 50 and over age range, both are included in our analyses.

that retirement income from IRAs and Keogh plans was very large at the time of the survey in 1984.

The CPS also defines "pension income" to include disability and survivors' benefits as well as regular retirement benefits. As a result, some people classified as pension recipients are receiving disability or survivors' benefits rather than regular retirement benefits. Especially at younger ages, female pension recipients described in this report undoubtedly include many who are receiving survivors' benefits rather than their own pension.[20] The number of pension recipients who have disability pensions is addressed in chapter 2.

Our analyses generally break the 50 and over population into four age groups: 50-54; 55-61; 62-64; and 65 and over. The breaks at ages 62 and 65 reflect the early and normal retirement ages under Social Security. We included the break at age 55 because many private pension plans permit retirement at that age with reduced benefits. The 50-54 age group is included to identify to what extent retirement is extending into even younger age groups. Further technical details of our analyses and additional information on the CPS are presented in appendix II.

Chapter 4 contains our estimates of what income and Social Security tax revenues would be gained if some early retirees returned to work or, alternatively, what was lost by their retiring early in the first place. The methodology used in these calculations and a discussion of the sensitivity of the estimates to the assumptions made are discussed in appendix VII.

We did not obtain agency comments on this report because there is no specific entity that has overall responsibility for retirement policy matters.

[20]Unpublished data furnished to us by the Department of Labor from its survey of private pension recipients indicate that at age 50-54 about 40 percent of women recipients of private pensions were receiving survivors' benefits. The percentage receiving survivors' benefits was much smaller at older ages, declining to about 20 percent at 55-64 and 15 percent at age 65 and beyond.

Chapter 2

Pension Receipt Is Increasing Among Individuals Age 50 and Older

Some major questions concerning early pension receipt are: What are the characteristics of workers who are receiving pensions early? To what extent are pensions taken early by choice rather than for reasons of health or disability? What changes are occurring over time? We found that early receipt of a pension is becoming increasingly common. Pension recipients as a percentage of the total population in the age group 50 to 64 nearly doubled between 1973 and 1983. Among both men and women, pension receipt at younger ages is growing faster than among individuals age 65 and over.

White males and high school graduates have the highest rate of early pension receipt. Before age 55, slightly more than half of male pension recipients have military pensions. Among private pension recipients in this age range, about half of men and 38 percent of women have disability-related pensions. However, at ages 55 to 64, most pension recipients are not receiving disability benefits and have apparently retired for reasons other than health.

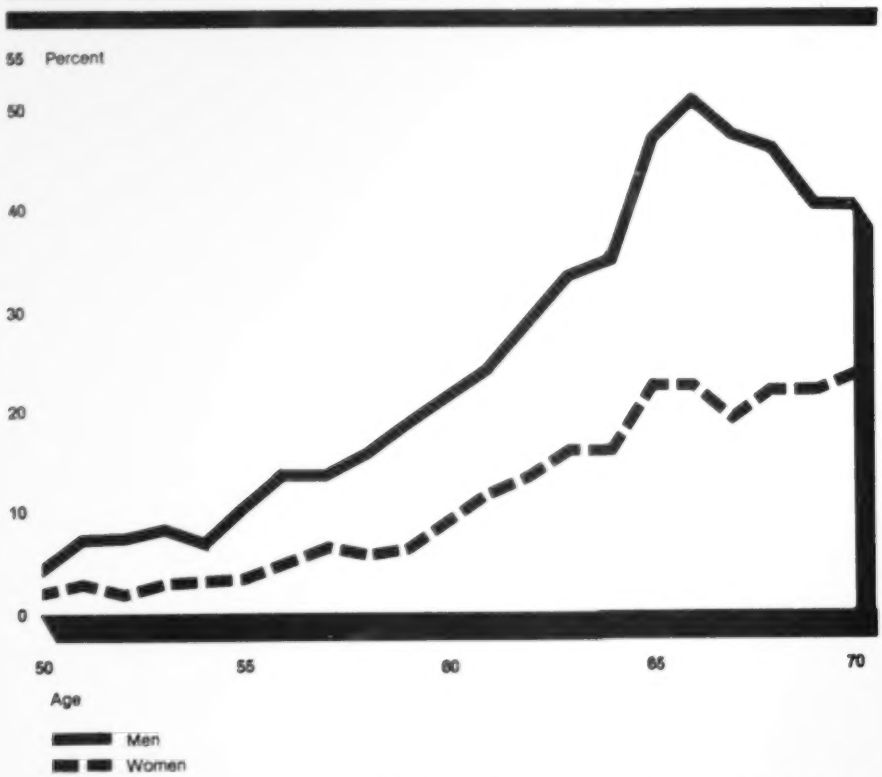
Pension Receipt Increases With Age Between 55 and 65

Figure 2.1 shows the variation of pension receipt by age in 1983. (The actual numbers are provided in app. III.) Starting at about age 55, the rate of pension receipt increased rapidly with age for men, reaching a peak of 51 percent at age 66. For women, pension receipt reached a high of 24 percent at age 70.

At nearly all ages, the rate of pension receipt of women was less than half that of men. The disparity between the pension receipt rates of men and women is not surprising given that many women have not had long-term involvement with the labor force. Moreover, a previous analysis of a special May 1983 CPS supplement found that proportionately fewer employed women than employed men had pension coverage (53 percent versus 59 percent).[1] Further, a greater disparity existed in the proportion of vested workers among those covered by a pension—52 percent of women with pension coverage were vested compared to 63 percent of

[1] Andrews, Emily S., The Changing Profile of Pensions in America. (Washington, D.C.: Employee Benefit Research Institute, 1985), page 63.

Figure 2.1: Percent of Population With Pension Income by Sex and Age—1983



men.[2] However, many married women have access to pension income through their husbands.[3]

[2]Vesting refers to the provision that an employee covered by a pension plan will retain a right to the benefits he or she has accrued even if the individual should leave the employer before retirement. Munnell, Alicia, The Economics of Private Pensions. (Washington, D.C.: The Brookings Institution, 1982), p. 34.

[3]An analysis of the 1984 CPS data showed that, at ages 55-61, slightly more women than men lived in households where someone was receiving a pension and, at ages 62-64, about 36 percent of both sexes lived in such households. However, at ages 65 and over, 46 percent of men but only 36 percent of women had direct or indirect access to pension income.

About 11.5 million individuals age 50 and over were receiving pension benefits in 1983. As shown in table 2.1, these included 7.1 million men and 4.4 million women. In 1983 pensions were received by about 7 percent of men age 50 to 54, 17 percent of men age 55 to 61, almost 33 percent of men age 62 to 64, and about 42 percent of men age 65 and older. Less than 3 percent of women age 50 to 54 received pensions compared to 7 percent of women age 55 to 61, 15 percent of women age 62 to 64, and 20 percent of women age 65 and older.

Table 2.1: Change in Rate of Pension Receipt by Sex and Age—1973, 1978, and 1983

Numbers in millions

	Pension recipients						Percentage change[b] 1973-83
	1973		1978		1983		
Sex and age	Number	Percent[a]	Number	Percent[a]	Number	Percent[a]	
Total:							
50 and over	5.4	11.4	8.6	15.5	11.5	19.5	71.1
50-54	.3	2.7	.5	3.9	.5	4.8	77.8
55-61	.8	6.0	1.4	9.2	1.9	11.9	98.3
62-64	.6	12.3	1.1	19.4	1.5	23.3	89.4
65 and over	3.7	19.6	5.7	24.5	7.7	29.2	49.0
Men:							
50 and over	3.4	16.1	5.4	21.7	7.1	27.1	68.3
50-54	.2	4.6	.4	6.2	.4	7.0	52.2
55-61	.5	8.2	1.0	14.1	1.3	17.1	108.5
62-64	.4	16.4	.7	27.1	.9	32.7	99.4
65 and over	2.3	29.6	3.4	35.3	4.6	42.4	43.2
Women:							
50 and over	1.9	7.5	3.2	10.4	4.4	13.4	78.7
50-54	.1	1.0	.1	1.9	.2	2.7	170.0
55-61	.3	4.0	.4	4.8	.6	7.4	85.0
62-64	.2	8.8	.4	12.7	.5	15.3	73.9
65 and over	1.4	12.5	2.3	17.0	3.1	20.0	60.0

[a]Rate of pension receipt as a percentage of total population in age group.

[b]Percentage change in the proportion of sex-age group receiving pension.

Pension Receipt Is Increasing Faster Among People Under Age 65

Between 1973 and 1983 the rate of pension receipt increased among both men and women (table 2.1).[4] This trend is also illustrated by figures 2.2 and 2.3. As expected, the largest increases in the numbers of pension recipients were in the 65 and over age group, but the largest proportionate increases in pension receipt were in age groups under 65. Among men, the proportion of pension recipients age 50 to 64 nearly doubled. Among men age 65 and older, the proportion receiving pensions increased by about 43 percent.

The proportion of female pension recipients age 50 to 54 nearly tripled, while the proportion age 55 to 61 increased by 85 percent and that of women age 62 to 64 increased by almost 74 percent. This compares to a 60-percent increase in the proportion of pension recipients among women age 65 and over.

[4]Part of the increase in pension receipt between 1973 and 1983 may be due to economic conditions. The unemployment rate in 1983 was about double that in 1973. Some of the increase in pension receipt at early ages may be due to people who were laid off beginning to take pension benefits.

Figure 2.2: Pension Recipients as a Percent of the Male Population Age 50 and Over—1973, 1978, and 1983

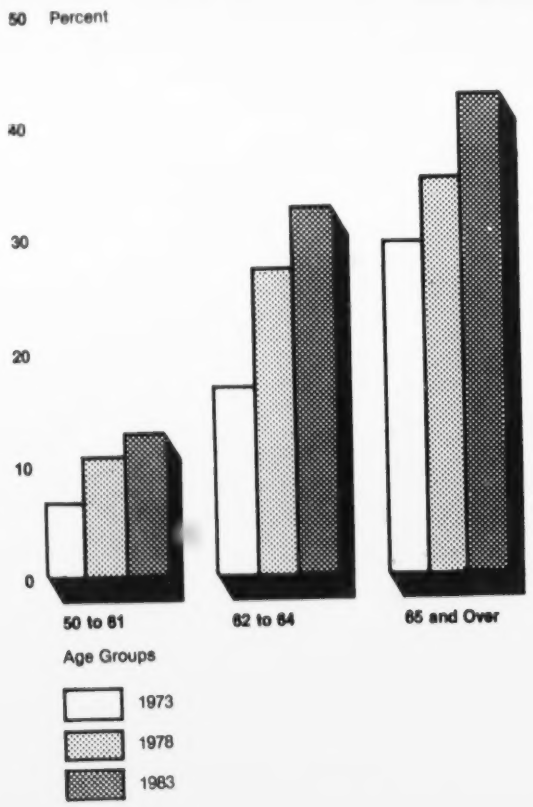
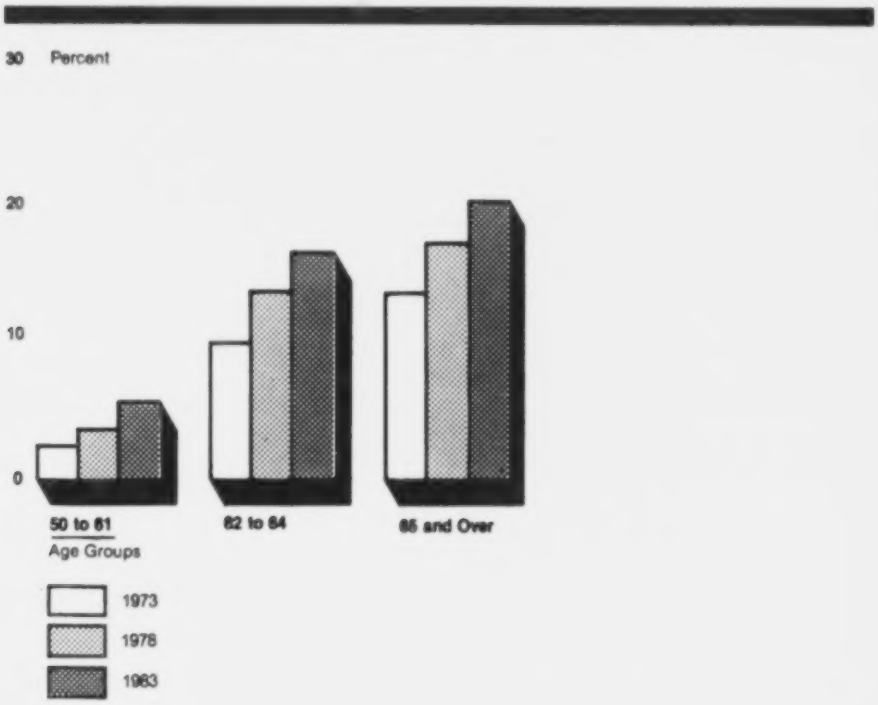


Figure 2.3: Pension Recipients as a Percent of the Female Population Age 50 and Over—1973, 1978, and 1983



Early Pension Receipt Is Most Common Among White Males and High School Graduates

Blacks had even larger increases than whites in the rate of pension receipt (table 2.2). However, even with these increases, proportionately fewer blacks than whites received pension income in 1983. Black men were slightly less likely to receive pension income than whites at ages under 65. However, there were sharp differences by race in the rate of pension receipt among men age 65 and older; black men that age were about half as likely to receive pensions as white men. A similar pattern is seen among women. Under age 65, approximately equal proportions of black and white women received pensions. Among women aged 65 and over, however, the differences were similar to those for men. Thus, large black-white differences in pension receipt occur only among the retirees over age 65. This pattern may reflect in part an increase in pension coverage among younger blacks, bringing them closer to the rates of pension coverage of whites. In addition, blacks may be more likely to take their pensions at earlier ages than whites, perhaps in part because of higher rates of disability among blacks.[5]

[5]For racial differences in health and disability among older men, see Herbert S. Parnes, ed. Work and Retirement: A Longitudinal Study of Men. (Cambridge, Mass.: MIT Press, 1981.) pp. 13, 15.

Table 2.2: Trends in Pension Receipt by Sex, Age, and Race: 1973 to 1983

Sex and age	Race[a]	Percentage receiving pensions 1973	1978	1983
Men:				
50-61	White	6.8	10.8	13.1
	Black	4.0	9.5	11.3
	Spanish origin	4.7	6.1	7.4
62-64	White	17.9	27.8	33.3
	Black	2.8	19.9	25.6
	Spanish origin	[b]	15.3	15.1
65 and over	White	31.2	36.8	44.4
	Black	13.0	18.9	24.1
	Spanish origin	15.7	18.9	22.8
Women:				
50-61	White	2.8	3.7	5.4
	Black	1.8	2.7	5.9
	Spanish origin	2.1	1.5	2.7
62-64	White	9.5	13.1	15.7
	Black	2.9	10.3	13.4
	Spanish origin	[b]	4.4	4.7
65 and over	White	13.3	18.1	21.0
	Black	5.0	7.0	10.7
	Spanish origin	4.3	3.9	9.6

[a]Persons of Spanish origin may be of any race.

[b]Base population less than 75,000.

Men and women of Spanish origin had the lowest proportions of pension receipt in 1983. Among men and women in all age groups, those of Spanish origin were about half as likely as whites to receive pension income.

As table 2.3 shows, before age 65, men with high school diplomas or some college had the highest proportion of pension recipients. The lowest rates were among men with the lowest and highest education, and the rate of pension receipt among college graduates was not statistically different from that of men without a high school diploma. The situation was noticeably different among men age 65 and older. In that age

group, the rate of pension receipt increased with each higher level of education.[6]

Table 2.3: Pension Receipt by Sex, Age, and Education—1983

Sex and age	Percent receiving pension: No high school diploma	High school diploma or some college	College graduate
Men:			
50-61	9.8	15.6	11.8
62-64	27.6	37.8	29.4
65 and over	34.6	49.6	57.3
Women:			
50-61	4.7	5.7	6.5
62-64	8.7	17.7	28.4
65 and over	12.9	23.5	47.7

It is not surprising that men with less than high school education have a low rate of early pension receipt; these men are less likely to hold jobs that are covered by pensions. The reason for the higher rate of early pension receipt among high school graduates compared with those who had completed a college degree is not clear. It may be that men with college degrees prefer to retire later because their jobs are more rewarding financially and psychologically. However, it is also possible that men at intermediate educational levels are more likely to be in pension plans that encourage early retirement. Blue collar workers in declining industries may account for part of the increase in early retirement among high school graduates.[7]

Among women, the rate of pension receipt increased with years of education, with the college-educated having the highest rates. Although women had lower rates of pension receipt than men at all levels of education, differences were generally much smaller and at some ages not significant in the college-graduate group.

[6]A further discussion of the characteristics of pension recipients at different ages may be found in appendix IV.

[7]We could not test the hypothesis that the trend toward early retirement among high school graduates was concentrated among blue collar workers in declining industries because CPS data on industry and occupation of last job is not available for all retirees. However, the greater rate of early pension receipt among high school graduates is of recent origin; in 1973, the rate was virtually identical for high school and college graduates.

Pension Source by Age

As shown in table 2.4, more than half of male pension recipients under age 55 were receiving military pensions. Among men age 55 to 61, military pension recipients were 19 percent, and federal civilian pension recipients constituted 17 percent of all recipients. Military and federal pension recipients were a larger proportion of pension recipients under age 65 than of those over 65, while private pension recipients were more dominant as age increased. The military predominance in the younger age groups reflects the fact that, as noted earlier, the military retirement system allows people to retire at any age after 20 years of service. The higher proportion of federal employees in the age groups from 55 to 64 may also be due to the provision allowing federal employees with 30 years of service to receive full pension benefits at age 55.

Table 2.4: Number and Percent of Male Pension Recipients by Age and Source of Pension—1983

Numbers in thousands

	Source of pension					
Age	Private only	Military only	Federal civilian only	State or local only	Multiple	Total[a]
50-54	28.2	54.4	6.1	10.0	1.3	100.0
55-61	48.4	19.3	17.1	12.6	2.6	100.0
62-64	59.5	8.9	15.5	10.9	5.2	100.0
65 and over	69.9	4.0	9.7	12.5	3.9	100.0
50 and over	62.6	10.0	11.6	12.2	3.7	100.0
Number	4,460	710	829	867	264	7,129

[a]Totals may not add due to rounding.

Among women, there was less difference in the types of pensions received by different age groups. Table 2.5 shows that over half of pension recipients in every age group received a private pension. As with men, the proportion receiving federal pensions was highest at younger ages. State or local pensions became increasingly important with age, reaching a high of 28 percent at ages 65 and over.[8]

[8]A comparison of the amount of pension benefits received by younger and older recipients may be found in appendix V.

Table 2.5: Number and Percent of Female Pension Recipients by Age and Source of Pension—1983

Numbers in thousands

	Source of pension					
Age	Private only	Military only	Federal civilian only	State or local only	Multiple	Total[a]
50-54	54.3	6.5	24.5	14.7	0	100.0
55-61	59.2	2.2	17.0	18.3	3.3	100.0
62-64	55.0	2.9	14.9	23.8	3.3	100.0
65 and over	56.2	1.6	10.7	28.1	3.4	100.0
50 and over	56.4	2.0	12.5	25.8	3.3	100.0
Number	2,486	89	553	1,135	143	4,407

[a]Totals may not add due to rounding

The Majority of Early Pension Recipients Are Not Receiving Disability Benefits

It is important to determine whether people who receive pensions at young ages (for example, those who are under the Social Security early retirement age of 62) have retired because of illness or disability or for other reasons. Many employers provide disability benefits to employees who are unable to perform their jobs because of physical or mental impairments. Since disabled employees can usually retire before the eligibility age for regular retirement benefits, many younger pension recipients may in fact be receiving disability pensions.

Because the CPS aggregates retirement, disability, and survivor benefits from public and private employers as pension income, it is impossible to distinguish employer-sponsored disability benefits from retirement benefits. However, the Department of Labor's Survey of Private Pension Benefit Amounts collected data on the type of pensions received by a sample of private pension recipients in 1978. Table 2.6 provides Labor's estimates of the numbers of private sector retirees receiving regular retirement versus disability benefits.[9] Among male pension recipients under 55, more than half received disability benefits in 1978. Among the small number of female pension recipients age 50 to 54, about 38 percent were disability recipients.

[9]Recipients of survivor benefits are not included in table 2.6. In addition, those pension recipients whose status is unknown or "other" are not included; they amount to no more than 10.8 percent of any age/gender group.

Table 2.6: Number and Percent of Private Pension Recipients by Sex, Age, and Type of Benefit—1978

Numbers in thousands

	Retirement benefit		Disability benefit		
Sex and age	Number	Percent	Number	Percent	Total
Men:					
50-54	48	48.0	52	52.0	100
55-61	402	73.9	142	26.1	544
62-64	528	86.6	82	13.4	610
65 and over	2,788	95.2	140	4.8	2,928
Women:					
50-54	15	62.5	9	37.5	24
55-61	130	82.8	27	17.2	157
62-64	143	91.1	14	8.9	157
65 and over	765	95.1	39	4.9	804

Source: Department of Labor, Survey of Private Pension Benefit Amounts, unpublished data.

In the 55 to 61 and older age groups, disability retirees were a clear minority of pension recipients of both sexes. Among men, they represented 26 percent of pension recipients age 55 to 61 and under 5 percent of those age 65 and older. Among female pension recipients, the number receiving disability benefits decreased from about 17 percent of those age 55 to 61 to under 5 percent of those age 65 and older.

A second way of determining whether early retirement is due to disability is to see what proportion of pension recipients also receive some form of government payment related to disability. The three types of payments we focused on were Social Security, Supplemental Security Income, and Workers' Compensation.

Since men over 61 and women of any age might be receiving Social Security benefits that were not based on their own disability, this analysis was restricted to men age 61 and younger.[10] Moreover, the analysis could be done only on private sector pension recipients, because the federal government and many state and local employers have not in the past offered Social Security coverage.

[10]Social Security Administration data show that 98 percent of male Social Security beneficiaries under age 62 were receiving disability benefits based on their own employment histories and not survivors' benefits. Among female Social Security beneficiaries under 62, however, about 42 percent were receiving Social Security disability benefits based on their own employment histories. The rest were receiving retirement, disability, or survivors' benefits as a dependent spouse or were receiving benefits as a parent.

Our analysis, based on 1984 CPS data, showed that among male private pension recipients age 50 to 54, almost 33 percent were receiving government disability benefits. This is much smaller than the comparable proportion of the Department of Labor sample who received private employer-sponsored disability benefits, as shown in table 2.6. This difference may reflect the strict requirements for receiving Social Security disability, especially below age 55.[11] The proportion of men age 55 to 61 who received government disability benefits is under 27 percent. This is quite similar to the 26 percent estimated in the Department of Labor survey to be receiving private employer-sponsored disability benefits. From these two sources, we can conclude that disability is an important reason for retirement before age 55 and remains important for a substantial minority up to age 62. However, at age 55 and above, most pension recipients have not taken pensions because of disability.

In summary, there has been a continuing trend toward earlier receipt of employer-sponsored pensions. Between 1973 and 1983 the rate of pension receipt among persons age 50 and over increased by over 70 percent; however, the greatest proportionate increase occurred among persons under the age of 65. The rate of pension receipt among persons age 50 to 64 nearly doubled, while that for persons age 65 and over increased by about half. We also found that, with the exception of men under age 55, most of whom receive either military or disability pensions, the majority of pension recipients appear to have retired for reasons other than health.

[11] For eligibility requirements for Social Security disability benefits and how they differ for older and younger workers, see Myers, Robert J., Social Security (Homewood, Illinois: Richard D. Irwin, 1985), pp. 52-56.

The Majority of Early Pension Recipients Are Not in the Labor Force

An additional issue regarding early pension receipt is the extent to which pension recipients remain in the labor force (either taking a new job or looking for work). If instead they decide not to work (i.e., retire), this raises the question as to whether this choice was voluntary or due to such problems as health or disability.

We found that labor-force participation of early pension recipients declines with age, from over 40 percent among civilian recipients at ages 50 to 54 to less than 20 percent at ages 62 to 64. In addition, all male pension recipients age 55 and older participate in the labor force at less than half the rate of nonrecipients. Below age 62, the percentage of pension recipients who are in the labor force has also declined over the past decade.

Most pension recipients age 55 and older who did not work in 1983 cited voluntary retirement rather than health or disability as their reason for not working. Health problems, as the reason why pension recipients do not work, have declined over the past decade. However, they still affect a significant number of early pension recipients. In addition, although most early pension recipients appear to have left the labor force voluntarily, the percentage unemployed among pension recipients age 55 to 61 who remained in the labor force was double that of nonrecipients in 1984.

Labor-Force Participation of Pension Recipients Declines With Age

Table 3.1 shows the March 1984 labor force participation rates for pension recipients and nonrecipients.[1] An individual who participates in the labor force is one who is either employed or unemployed. To be counted as unemployed, a person must be actively looking for work. (App. VI shows the proportion of pension recipients and nonrecipients who are actually working.)

[1]The pension receipt data are for 1983, while labor-force participation rates and employment-to-population ratios are for the week before the CPS was administered in March 1984. Thus, these data do not identify whether people have permanently withdrawn from the labor force or whether they have permanently returned to work, but, rather, show whether the respondents were working during a given week.

Table 3.1: Labor-Force Participation Rates for Pension Recipients and Nonrecipients by Sex and Age—March 1984

Sex and age	Pension recipients			Nonrecipients
	Total	Civilian	Military	
Men:				
50-54	**68.0**	43.0	89.0	90.0
55-61	**41.9**	35.1	66.4	83.3
62-64	**19.3**	18.1	28.4	61.7
65 and over	**10.8**	10.3	17.9	20.5
Women:				
50-54	**42.1**	42.7	[a]	61.2
55-61	**27.3**	27.2	[a]	49.3
62-64	**19.4**	19.8	[a]	30.7
65 and over	**6.2**	6.2	[a]	8.1

[a]Base population less than 75,000.

As shown in the table, 68 percent of the male pension recipients age 50 to 54 were in the labor force. Excluding those with military pensions, the rate for civilian pension recipients only was much lower, about 43 percent. The significant effect that military recipients had was due to the fact that (1) they composed about 54 percent of all male pension recipients in the 50 to 54 age group (see table 2.3), and (2) their labor force participation rate was essentially the same as the rate for nonrecipients in that age group. Among female pension recipients age 50 to 54, the labor-force participation rate was about 42 percent.

Among male pension recipients age 55 to 61, the group of military pension recipients is still large enough and different enough in its behavior to pull up the labor-force participation rate of the whole age group somewhat. In this age group, almost 42 percent of all pension recipients and about 35 percent of the civilian pension recipients participated in the labor force. Among women age 55 to 61, about 27 percent of pension recipients were in the labor force.

Less than 20 percent of both male and female pension recipients age 62 to 64 were in the labor force. At this age the military recipient group was a smaller part of the total and had little effect on the total participation rate. In the 65 and older age group, labor-force participation rates were about 10 percent for men and 6 percent for women.

Labor-Force Participation Rates Are Much Lower for Pension Recipients Than for Nonrecipients

We compared the labor-force participation rates of pension recipients to those of nonrecipients, in order to assess whether the participation rates of pension recipients are low for their age groups. As shown in table 3.1, all male pension recipients age 55 and over participate in the labor force at less than half the rate of nonrecipients. While civilian pension recipients under age 55 also participated in the labor force at less than half the rate of nonrecipients, the military pension recipients participated at basically the same rate as nonrecipients.

Among women, pension recipients were also much less likely than nonrecipients to be in the labor force. But this comparison is less meaningful because some of the female nonrecipients may have little or no work experience, and many of the pension recipients were survivors' beneficiaries rather than retirees. Thus, receipt of a pension seems to be accompanied by withdrawal from the labor force for the majority of people in all age groups except among men under age 62 receiving military pensions.

Labor-Force Participation Has Declined for Pension Recipients Below Age 62

Table 3.2 shows the labor-force participation rates of male and female pension recipients and nonrecipients between 1974 and 1984. Over this period, the participation of male pension recipients age 55 to 61 decreased significantly.[2] This decline may be due to more generous pensions that allowed recipients to retire completely or to fewer job opportunities for older workers. Over the same period, labor-force participation rates were also declining for men in the 55 to 61 age group who did not have pensions. However, some of these male nonrecipients may have had Social Security disability benefits.

At age 62 and beyond, there were no significant changes in the labor-force participation of any group of pension recipients, but participation declined among men without employer-sponsored pensions. Most of these men were undoubtedly eligible for Social Security benefits.

[2]The increase in labor-force participation among men 50 to 54 was not statistically significant. There was, overall, a significant decrease among male pension recipients age 50 to 61 due to the predominant influence of the larger 55 to 61 age group.

Table 3.2: Labor-Force Participation Rates for Pension Recipients and Nonrecipients by Sex and Age—1974, 1979, and 1984

		Men			Women		
Age	Year	Total	Pension recipients	Non-recipients	Total	Pension recipients	Non-recipients
50-54	1974	90.5	60.6	92.0	53.8	[a]	53.8
	1979	90.0	58.0	92.1	56.6	46.7	56.8
	1984	88.5	68.0	90.0	60.7	42.1	61.2
55-61	1974	84.9	50.4	87.9	46.3	34.4	46.8
	1979	79.3	43.0	85.3	47.5	26.9	48.5
	1984	76.2	41.9	83.3	47.7	27.3	49.3
62-64	1974	60.6	22.6	68.1	29.2	13.0	30.8
	1979	54.7	24.0	66.2	29.9	19.5	31.4
	1984	47.9	19.3	61.7	29.0	19.4	30.7
65 and over	1974	22.1	12.6	26.1	8.2	6.3	8.5
	1979	19.9	10.7	24.9	8.7	7.0	9.0
	1984	16.4	10.8	20.5	7.7	6.2	8.1

[a]Base population less than 75,000.

The situation was very different for women. The decline in labor-force participation among pension recipients below age 62 was offset by the increasing participation of women without pensions. Thus total labor-force participation changed very little at age 55 to 61, and below age 55 actually increased. After age 62 little change occurred in the labor-force participation of either pension recipients or nonrecipients; there is even some evidence of a slight increase in participation among pension recipients at ages 62 and 64. Women are contributing very little to the early retirement trend at present; however, this situation could change in the future as more women become eligible for pensions.

Pension Recipients Are More Likely Than Nonrecipients to Work Part Time

Table 3.3 shows the percentage of employed pension recipients and nonrecipients who were working full time and part time in March 1984. It shows that among employed pension recipients, most men under age 65 and women under age 62 worked full time. Conversely, most working male pension recipients age 65 and over and female recipients age 62 and over worked part time. However, in each age group, male and female pension recipients who worked were more likely to work part time than nonrecipients, and the prevalence of part-time work increased with age for both pension recipients and nonrecipients.

Table 3.3: Percent Distribution of Employed Pension Recipients and Nonrecipients by Hours Worked per Week—March 1984

	Hours worked per week			
	Men		Women	
Age and pension status	1-34	35+	1-34	35+
50-54:				
Recipients:	10.5	89.5	[a]	[a]
Civilian	[a]	[a]	[a]	[a]
Military	9.3	90.7	[a]	[a]
Nonrecipients	9.2	90.8	29.6	70.4
55-61:				
Recipients:	24.5	75.5	45.3	54.7
Civilian	31.3	68.7	44.5	55.5
Military	13.7	86.3	[a]	[a]
Nonrecipients	11.1	88.9	31.9	68.1
62-64:				
Recipients:	40.3	59.7	65.0	35.0
Civilian	45.8	54.2	65.9	34.1
Military	[a]	[a]	[a]	[a]
Nonrecipients	24.5	75.5	36.8	63.2
65 and over:				
Recipients:	64.3	27.9	72.1	27.9
Civilian	68.0	32.0	72.1	27.9
Military	[a]	[a]	[a]	[a]
Nonrecipients	46.3	53.6	62.0	38.0

[a]Base population less than 75,000.

Over two-thirds of employed male civilian pension recipients aged 55 to 61 worked full time. By ages 62 to 64 the percentage of full-time workers was just over half, and at age 65 and over, less than a third. Military pension recipients were much more likely to work full time at ages below 62 (around 90 percent); as a result, they were not significantly different from nonrecipients working full time.

Over half of employed female pension recipients age 55 to 61 and over a third of recipients ages 62 to 64 worked full time. In the same age ranges, about two-thirds of nonrecipients were full-time workers. After age 64, 28 percent of employed female pension recipients worked full time, compared to 38 percent of nonrecipients. For both sexes, these figures suggest that people prefer to work fewer hours as they grow older; this tendency is especially marked among pension recipients.

Unemployment Rates Are High for Civilian Pension Recipients Below Age 62

As shown in table 3.1, the percentage of civilian pension recipients who were in the labor force in March 1984 ranged from about 43 percent at age 50 to 54 to less than 20 percent at ages 62 to 64. The labor force is made up of both employed persons and those who are unemployed and looking for work. Table 3.4 shows the percentage of labor-force participants who were in the unemployed category.

Table 3.4: Unemployment Rates for Pension Recipients and Nonrecipients by Sex and Age—March 1984

Sex and age	Pension recipients			Non-recipients
	Total	Civilian	Military	
Men:				
50-54	4.7	[a]	2.4	5.5
55-61	10.7	12.8	6.2	5.2
62-64	7.4	6.5	[a]	5.6
65 and over	3.9	4.2	[a]	3.0
Women:				
50-54	[a]	[a]	[a]	4.5
55-61	8.1	7.2	[a]	3.8
62-64	4.5	4.5	[a]	3.2
65 and over	3.3	3.3	[a]	3.9

[a]Base population less than 75,000.

Male, civilian pension recipients below age 62 had an unemployment rate about twice that of nonrecipients. In the 55 to 61 age range, the unemployment rate for civilian pension recipients was almost 13 percent. Female pension recipients age 55 to 61 also had a higher unemployment rate than that of nonrecipients, but the rate did not reach the high level shown for male pension recipients.

Research has shown that, once unemployed, older workers generally remain unemployed longer than younger workers.[3] The unemployment rates shown in table 3.4 suggest that some pension recipients who would like to work have difficulty finding new jobs.

Beyond age 61, the difference in the unemployment rates of pension recipients and nonrecipients is not statistically significant. At age 65 and older, few people are unemployed and looking for work.

[3]Older Workers: Prospects, Problems and Policies (Washington, D.C.: National Commission for Employment Policy, 1985), p. 13.

Pension Recipients With More Education Are More Likely to Be in the Labor Force, but Racial Differences Are Minor

Table 3.5 shows the labor-force participation rates of black and white pension recipients and nonrecipients. The small cell sizes required that the age groups be collapsed and did not allow for any estimation of the labor-force activity of Hispanic pension recipients. There was little difference in the labor-force participation rates of black and white pension recipients. However, there were significant differences between participation rates for black and white men who were not receiving pension income.

Table 3.5: Labor-Force Participation Rates for Pension Recipients and Nonrecipients by Sex, Age, and Race—March 1984

	Pension recipients		Nonrecipients	
Sex and age	White	Black	White	Black
Men:				
50 to 61	48.2	44.9	87.6	74.0
62 and over	12.3	13.2	30.8	26.0
Women:				
50 to 61	30.5	24.3	53.9	58.3
62 and over	7.9	9.4	12.2	13.8

Although racial differences were minor, there was a strong correlation between education and labor-force participation among male pension recipients of all ages, as shown in table 3.6. Among men age 50 to 61, for example, almost 29 percent of the pension recipients with less than a high school education participated in the labor force. However, labor-force participation increased with the level of education. About 50 percent of the pension recipients who completed high school or some college and over 65 percent of those with a college degree were in the labor force at the ages of 50 to 61. Among women, the relationship between education and labor-force participation of pension recipients was much weaker.

Table 3.6: Labor-Force Participation Rates for Pension Recipients and Nonrecipients by Sex, Age, and Education—March 1984

		Men		Women	
Age	Education	Pension recipients	Non-recipients	Pension recipients	Non-recipients
50-61	Not high school graduate	28.8	76.6	23.9	43.2
	High school graduate or some college	50.3	89.5	32.2	57.3
	College graduate	65.2	95.0	34.0	69.4
62-64	Not high school graduate	9.4	52.6	19.4	25.1
	High school graduate or some college	21.1	61.0	19.8	32.8
	College graduate	32.9	83.7	18.8	45.3
65 and over	Not high school graduate	6.8	14.0	4.7	5.8
	High school graduate or some college	11.9	25.8	6.8	10.3
	College graduate	19.4	48.7	7.2	15.1

The higher labor-force participation rates of pension recipients with more years of education may reflect the character of their occupations. Analysis of data from the National Longitudinal Surveys of Labor Market Experience showed that retirees who had been in professional or managerial jobs before retiring were significantly more likely than others to be in the labor force after retirement.[4] The researchers speculated that this might reflect their higher wage rate or the greater attractiveness of the positions for which they qualify.

Health Problems Are Not the Primary Cause of Lower Labor-Force Participation Rates of Pension Recipients

An important question is whether retirement is a matter of compulsion or choice. In the first view, workers are compelled by poor health, involuntary unemployment, or mandatory retirement policies to withdraw from the work force. The "choice" perspective is that people choose to retire by balancing the financial and nonfinancial gains and losses from work versus leisure.[5] The previous sections showed that the majority of pension recipients have withdrawn from the labor force. It is important to determine whether these people have done so involuntarily or by choice.

[4]Parnes, Herbert S., et al., Retirement Among American Men. (Lexington, MA: D.C. Heath and Co., 1985), p. 94.

[5]Fields, Gary S., and Olivia S. Mitchell, Retirement, Pensions and Social Security. (Cambridge, MA: The MIT Press, 1984), pp. 1-15.

One way to test for the prevalence of voluntary versus involuntary retirement is to use a CPS question asked of respondents who did not work at all in 1983. The results of this analysis are shown in table 3.7. Respondents were asked to choose between a number of reasons for not working.[6] The major reasons were illness or disability, inability to find work (categorized as unemployment in table 3.7), retirement, and taking care of home or family. We used "retirement" in response to this question as a proxy for the voluntary decision to retire. The health/disability and unemployment responses are the categories corresponding to involuntary retirement. Home responsibilities were important mainly for women.

[6]Mandatory retirement was not among the reasons provided by the CPS questionnaire, but very few workers remain on their jobs until the age of 70, the youngest mandatory retirement age allowed for most occupations by federal law. As a result, it was estimated that the proportion of workers who retire because of mandatory retirement is not more than 3 percent. See Fields and Mitchell, pp. 7-8. A small category of "other" reasons is also omitted from table 3.7; the percentage of responses in this category ranged from 0 to 5 percent.

Table 3.7: Reason for Not Working in 1983 by Sex, Age, and Pension Status

Age	Pension status	Proportion citing			
		Health/ disability	Retirement	Unemployment	Home responsibility
Men:					
50-54	Recipients	58.4	40.2	1.4	[a]
	Nonrecipients	66.5	6.5	19.8	1.9
	Total	65.0	12.8	16.3	1.5
55-61	Recipients	37.5	59.6	2.3	[a]
	Nonrecipients	61.4	21.1	12.7	1.4
	Total	51.6	36.9	8.5	.8
62-64	Recipients	17.6	79.7	1.8	.5
	Nonrecipients	43.8	50.0	3.2	1.7
	Total	30.0	65.7	2.5	1.1
65 and over	Recipients	7.7	91.5	.2	.5
	Nonrecipients	19.2	79.7	.3	.5
	Total	13.9	85.1	.2	.5
Women:					
50-54	Recipients	[b]	[b]	[b]	[b]
	Nonrecipients	13.2	1.6	4.4	78.7
	Total	13.5	2.3	4.2	77.6
55-61	Recipients	20.7	44.4	2.3	31.8
	Nonrecipients	18.3	7.6	2.7	70.1
	Total	18.5	11.0	2.6	66.5
62-64	Recipients	13.7	56.6	2.6	27.1
	Nonrecipients	16.5	24.0	1.1	57.3
	Total	16.0	29.4	1.3	52.3
65 and over	Recipients	8.6	68.4	.2	21.6
	Nonrecipients	20.2	41.0	.3	37.6
	Total	17.9	46.5	.3	34.4

[a]Less than .05 percent.

[b]Base population less than 75,000.

Pension Recipients 55 and Older Primarily Cite "Retirement" As Their Reason for Not Working

As can be seen from table 3.7, there are large differences in the proportion of men citing involuntary reasons (disability or unemployment) for not working by pension status and age in 1983. Pension recipients were more likely to cite retirement as a reason for not working and less likely to cite health, disability, or unemployment than were nonrecipients. Among both pension recipients and nonrecipients, the proportion citing retirement increased with age, and the proportion citing health, disability, and unemployment declined with age.

Among men age 50 to 54, most pension recipients and nonrecipients who did not work cited health or disability as the reason, with no statistically significant difference between these proportions. On the other hand, a sizable minority of about 40 percent of the pension recipients cited retirement as the reason they were not working, as compared to under 7 percent of the nonrecipients. Instead of retirement, almost 20 percent of the nonrecipients cited unemployment, as compared to less than 2 percent of the recipients. In a separate analysis we found that less than half of nonrecipients with health or disability problems were receiving Social Security disability benefits.

Male pension recipients age 55 and older primarily cited "retirement" as their reason for not working in 1983. Among the men age 55 to 61 receiving pension income, the proportion citing health or disability was less than 38 percent, while nearly 60 percent cited retirement as their reason for not working. The situation was very different among those nonworking men who were not receiving pension income. Only 21 percent cited retirement and, therefore, seem to have stopped working voluntarily. Health or disability was cited by over 61 percent, and almost 13 percent cited unemployment as the reason for not working.[7] About half of those with health problems were receiving Social Security disability benefits.

Less than 20 percent of women under age 62 cited health or disability as their reason for not working. Receipt of Social Security disability benefits was relatively low for those women—only 30 percent of those 50 to 54 and 38 percent of those 55 to 61 received Social Security benefits of any kind. In the latter group especially, some of these benefits were undoubtedly survivor benefits rather than disability benefits.

Among the age 62 to 64 male pension recipients, almost 80 percent cited retirement as their reason for not working, with most of the remainder citing health or disability. This response contrasts sharply with that of the nonrecipients, who are split almost evenly between health/disability and retirement. Finally, among men age 65 and older, the overwhelming majority of both the pension recipients and the nonrecipients cite retirement as their reason for not working.

[7]The high report of unemployment among nonrecipients who did not work in 1983 might at first seem incompatible with the rather low rates shown for nonrecipients in table 3.4. However, only a small percentage of nonrecipients did not work during 1983, and it is not surprising that unemployment would be heavily concentrated in this group.

Overall, the majority of male early pension recipients who did not work in 1983 cited retirement, rather than health or disability, as their reason for not working. However, a sizable minority—over half of those below age 55 and a third of those age 55-61—cited health problems. The younger, nonworking men who are not receiving pensions seem much less likely to have made a voluntary choice; few of those under 62 and only half of those age 62 to 64 cited retirement as their reason for not working.

Health Problems as the Reason for Not Working Have Declined Over Time

Table 3.8 shows that the proportion of men age 55 and over who cited health or disability as their reason for not working declined substantially between 1973 and 1983. Small numbers precluded meaningful analysis of these data by pension receipt or nonreceipt.

Table 3.8: Proportion of Men Who Did Not Work All Year Who Gave Health or Disability as the Reason—1973, 1978, and 1983

Age	1973	1978	1983
50-54	69.9	75.4	65.0
55-61	68.3	64.4	51.6
62-64	51.8	39.6	30.0
65 and over	21.6	17.1	13.9

The Social Security Administration's 1982 New Beneficiary Survey also reported a similar decline in the relative importance of health problems as a reason for labor-force withdrawal.[8] This survey contains findings for all retired-worker beneficiaries who received a first Social Security benefit at age 62 or older between June 1980 and May 1981. The reasons men in this survey gave for having left their last job were compared to a 1968 Social Security Administration study.

In 1968, 54 percent of the men who had left wage and salary jobs and became entitled to benefits at ages 62 to 64 reported they had left their last job for health reasons. This changed by 1982, when only 29 percent of a comparable group of men cited health problems as their reason for leaving their last job.

In contrast, 24 percent of the men age 62 to 64 in 1968 claimed they left work because of a desire to retire or because of retirement benefit eligibility; in 1982, 42 percent of the men cited these as the most important reasons. Among the men in each survey, no difference was found in the

[8]Sherman, Sally R., "Reported Reasons Retired Workers Left Their Last Job: Findings From the New Beneficiary Survey," Social Security Bulletin, March 1985, Vol. 48, No. 3, pp. 25-26.

proportion who reported employer-initiated reasons (17 percent), and virtually no difference was found in the subcategories of lost job (13 and 12 percent) or compulsory retirement (4 and 5 percent).

In summary, based on 1984 CPS data, we found that the majority of early pension recipients were not in the labor force. We also found that male pension recipients age 55 and older participate in the labor force at less than half the rate of nonrecipients. Participation rates for pension recipients under age 62 have been declining over the past decade.

Estimated Tax Losses From Early Retirement

One concern about the decline in labor-force participation of pension recipients is that the cost in reduced tax revenues may be considerable. In response to this concern, we developed estimates of what income and Social Security tax revenues would be gained if some early retirees returned to work or, alternatively, what was lost by their retiring in the first place. For a number of reasons, precise estimates of these costs or gains are not possible. One reason is the uncertainty as to the extent that additional older workers could be absorbed into the work force. Another problem is that we do not know how much retirees might be able to earn if they returned to work.

Given these and other uncertainties discussed in appendix VII, we developed a range of illustrative estimates of early retirement costs. The average additional income and Social Security tax revenues we estimated for each retired person who might have returned to work in 1983 was about $4,700 for persons under age 62 and $3,800 for persons age 62 to 64. If between 10 and 25 percent of retired pension recipients had returned to work without replacing other workers, additional tax revenues of $550 million to $1.4 billion could have been generated. These estimates represent additional revenues for 1983 only. No estimate of future revenues or expenditures was attempted.

Additional Tax Revenue for Each Retired Pension Recipient Returning to Work Could Have Averaged Over $4,000

Table 4.1 shows our estimates of additional tax revenue that might be generated if a retired pension recipient returned to work in 1983.[1] These estimates assume that pension recipients who were not working in 1983 would have the same earnings, on average, as pension recipients who did work in that year. This assumption probably causes an overestimate of earnings, and therefore tax receipts, because better educated and hence, on average, better paid pension recipients were more likely to continue working than those with lower levels of education. (See table 3.6.)

[1]Thoughout this chapter the term "retired pension recipient" is used to mean a pension recipient who did not work during 1983 and gave "retirement" as the reason for not working. This definition is more restrictive than the definition of retired persons in chapter 1—receiving a pension and withdrawing from the labor force. The reason for using this narrower definition is that for purposes of estimating possible increases in employment, we do not want to include disabled persons or others who are unlikely to be able or willing to work.

Table 4.1: Estimates of Average Additional Tax Revenues per Person, If Retired Pension Recipients Had Returned to Work in 1983, by Sex and Age[a]

Recipients in thousands

Sex and age	Income tax	Social Security tax	Total	Number of retired pension recipients[a]
Men:				
50-54	$4,600	$2,600	$7,200	46
55-61	3,200	2,200	5,400	368
62-64	2,800	1,700	4,500	482
Women:				
50-54	2,000	1,600	3,600	16
55-61	1,400	1,200	2,600	166
62-64	1,400	1,100	2,500	209
Both sexes:				
50-61	2,800[b]	1,900[b]	4,700[b]	596
62-64	2,300[b]	1,500[b]	3,800[b]	691

[a]Pension recipients who gave retirement as reason not worked; excludes recipients who gave health or disability, unemployment, or home responsibilities as reason not worked.

[b]Average additional tax weighted by number of retired persons receiving pensions in each sex-age group.

An additional assumption is that the income tax paid by working pension recipients in 1983 equaled the average income tax paid by other taxpayers with the same income. The initial income of nonworking pension recipients was taken directly from the CPS; the potential income, if they returned to work, was calculated as the sum of their initial income and the average earnings of working pension recipients in the same age group.

The additional income tax was the difference in average income taxes paid at these two income levels in 1983. (Further details of these calculations and a discussion of the sensitivity of the estimates to the assumptions made may be found in app. VII.) Social Security taxes include Old Age Survivors' and Disability Insurance and Hospital Insurance taxes and are calculated on earnings up to the Social Security maximum and at the tax rates in effect in 1983.[2]

[2]Maximum earnings subject to the Social Security tax in 1983 were $35,700. The combined tax rate for OASDI and Hospital Insurance taxes in 1983 was 6.7 percent for both employees and employers, for a total of 13.4 percent. Both the earnings maximum and tax rates are higher in 1986. The estimates shown are for 1983; a current fiscal year estimate would be slightly higher because of inflation and the higher 1986 tax rate.

Below age 62, the estimated average additional tax revenue per person was $4,700, including about $2,800 in income taxes and $1,900 in Social Security taxes. The average male pension recipient would pay an additional $5,000 in taxes, while the average female recipient would pay about $2,600. Pension recipients below age 55 could be expected to contribute considerably more than those between age 55 and 61, but the small numbers of recipients under age 55 limits the number of additional workers with high earnings potential. At ages 62 to 64 the additional revenue per person would be about $3,800, considerably lower than the level for younger recipients. This lower amount probably reflects both the lower hourly earnings available to older workers and the increase in the percentage of pension recipients who prefer part-time work or are unable to work full time because of health or job market limitations.

We made a second set of estimates assuming that pension recipients had stayed on their former jobs and that their earnings were, on average, the same as those of nonrecipients in their age range. In this case, they would not be receiving a pension, so we subtracted their average pension amount from their earnings to obtain the net new income subject to income tax. These estimates yielded about $4,600 for the 50 to 61 age group and $4,300 for the 62 to 64 group, slightly lower for the younger group and higher for the older group than the estimates assuming that pension recipients returned to work at a new job. (For further details, see app. VII.)

Estimates of Additional Tax Revenues Depend on How Many Additional Workers the Economy Can Absorb

If retired workers could find jobs that would represent a net addition to the labor force, the additional taxes they pay would represent a net addition to tax revenues. However, in 1983, an average of about 1.2 million workers in the 50-64 age range were unemployed at any given time.[3] About 1.3 million pension recipients did not work during 1983 and gave "retirement" as their reason for not working. Therefore, it is unlikely that all of these retired persons could have found jobs without displacing other job seekers. In fact, some of the retired pension recipients probably represent workers in declining industries or regions, who lost their jobs and elected to retire when they could not find other work. Research shows that older workers who are laid off are less likely to find other work and are more likely to retire in places and times when unemployment is high than in low unemployment areas and prosperous

[3]Calculated from Employment and Earnings, U.S. Department of Labor, Bureau of Labor Statistics, January 1984, p. 58.

times.[4] Therefore, the ability of the economy to maintain high levels of employment will affect the number of workers who retire, the number who can be reemployed, and the additional tax revenues that could be generated.

Table 4.2 shows a range of estimated additional tax revenues, assuming on the low side that as few as 10 percent of retired pension recipients, and on the high side that as many as 75 percent, could find jobs that would represent net additions to total employment. Even in times of relatively high unemployment, some retired workers probably have skills that would allow them to take jobs that would not otherwise have been filled; the 10-percent figure allows for this possibility. On the high side, various surveys of retired persons and those nearing retirement age have found that, at most, about three-fourths (and often far fewer) expressed an interest in employment.[5] Even in an economy with less unemployment than at present, many retired persons probably would not want to work. On the other hand, there might be fewer persons who had retired early after losing long-term jobs.

Table 4.2: Estimated Additional Tax Revenue If Different Percentages of Retired Pension Participants Had Returned to Work in 1983

Dollars in millions; recipients in thousands

	Additional revenue (Percent returning to work)				Number of retired pension recipients[a]
Age	10	25	50	75	
50-61	$280	$ 700	$1,410	$2,110	596
62-64	270	670	1,330	2,000	691
Total	**$550**	**$1,370**	**$2,740**	**$4,110**	**1,287**

[a]Pension recipients who gave retirement as reason not worked; excludes recipients who gave health or disability, unemployment, or home responsibilities as reason not worked.

On the low side, the added tax revenue for workers below age 62 would be about $280 million and at ages 62 to 64 about $270 million. A maximum estimate, under very favorable economic conditions, might be as

[4]See Shapiro, David, and Steven H. Sandell, "Economic Conditions, Job Loss and Induced Retirement," paper presented at the annual winter meeting of the Industrial Relations Research Association, Dallas, Texas, December 1984. See also Sandell, Steven H., Testimony before the Select Committee on Aging, U.S. House of Representatives, July 24, 1985.

[5]In a 1981 poll, about three-fourths of workers age 55 and over said they would prefer working part time to retiring completely. See National Commission for Employment Policy, Older Worker Employment Comes of Age: Practice and Potential, January 1985, Washington, D.C., p. 11. On the other hand, a survey of retirees age 60 to 74 in 1981 found less than 20 percent expressing any interest in employment. See Parnes, Herbert S., and Lawrence J. Less, "Economics Well-Being in Retirement," in Retirement Among American Men, Herbert S. Parnes, et al. (Lexington, Mass.: D.C. Health, 1985), pp. 98-99.

high as $4.1 billion for the two age groups combined. At present, however, an estimate at the low end of the range, probably well under $1 billion, would be most realistic.

It should be emphasized that these estimates show only immediate revenues gained. They do not take into account possible future effects of the retirees' additional years of employment. For example, additional years of earnings might build up the financial reserves of some workers, making it less likely that they would later become eligible for Supplemental Security Income or other public welfare expenditures. Also not taken into account are short-term reductions in Social Security expenditures for age 62 to 64 pension recipients who would receive reduced Social Security benefits. However, since the early retirement adjustment in Social Security is close to being actuarially fair for those claiming benefits between ages 62 and 65, savings from paying fewer benefits to workers under age 65 will be offset in later years by larger payments when the workers retire at older ages. In fact, Social Security expenditures might increase in the future because benefits payable to retirees also would be larger due to the possible substitution of additional years of higher earnings for earlier years of low or no earnings.[6]

We also did not attempt to analyze secondary effects on the economy through additional consumer demand generated by the additional workers. Estimating secondary and long-term effects would require a full model of the economy and many additional assumptions. One simulation of this kind found that increased labor-force participation of the elderly led to short-term increases in total unemployment, but an eventual increase in the gross national product and hence presumably larger tax receipts.[7]

In summary, precise estimates of early retirement costs cannot be developed because of uncertainties about the extent to which the economy could absorb additional workers. In addition, we lack information about how much retired pension recipients might be able to earn, what other sources of income they would have, and what their expenditure and savings patterns would be if they were working.

[6]See Blinder, Alan S., Robert H. Gordon, and Donald E. Wise, "Reconsidering the Work Disincentive Effects of Social Security," National Tax Journal 33, 1980, pp. 431-442.

[7]Olsen, Lawrence, Christopher Caton, and Martin Duffy, The Elderly and the Future Economy (Lexington, Mass.: D.C. Heath, 1981), Chapter 4.

Our illustrative estimates showed additional tax revenues in 1983 of about $4,700 for each reemployed pension recipient under age 62 and $3,800 per person age 62 to 64. If between 10 and 25 percent of retired pension recipients had returned to work, added tax revenues of $550 million to $1.4 billion could have been generated in 1983, providing that all those returning to work represented net additions to total employment. No estimate was attempted of revenues or expenditures generated by this additional employment beyond this 1-year period.

Chapter 5

Retirement Age Policy Is Evolving to Meet Changing Goals

The analyses presented in the previous chapters showed that:

- The percentage of the population receiving income from employer-sponsored pensions has increased rapidly at ages younger than 65.
- Individuals with pension income have much lower labor-force participation rates than nonrecipients of the same age and sex.
- The resulting earlier retirement represents a potentially significant loss in federal revenues.

These findings, together with expectations concerning an aging population, raise questions about the future financing of retirement benefits for persons who are living longer and retiring earlier. They also raise questions about federal policy regarding retirement eligibility age.

Recent legislative changes represent an attempt to reduce incentives for early retirement and remove obstacles to older worker employment. Additional changes have also been proposed that would (1) further remove some of the financial incentives to retire early in public and private plans and (2) focus on the problems of individuals who must retire early due to poor health or inability to find work.

Employers Have Found It Advantageous to Offer Early Retirement

Until recently, the age of retirement has not been a major issue in retirement legislation. Instead, the primary objective has been to insure an adequate level of retirement income for the nation's elderly; at times, a second objective has been to encourage older workers to retire in order to make room for younger ones.[1] As the different retirement plans evolved, both public and private employers added incentives to encourage early retirement. These were added for a variety of reasons, including[2]

- the need to cut back on the work force in declining industries or in periods of economic downturn,
- the perceived need to open up promotion opportunities for younger workers,

[1]For early goals of the Social Security system, see Stein, Bruno, Social Security and Pensions in Transition, New York: The Free Press, 1980), pp. 16-17, and Schulz, James, "Pensions and Retirement Policy: The Unemployment Factor," (Brandeis University: The Policy Center of Aging, mimeo 1985), pp. 8-10. For goals of legislation regulating private pension plans, see Greenough, William C., and Francis P. King, Pension Plans and Public Policy (New York: Columbia University Press, 1976), pp. 59-67.

[2]Binstock, Robert H., and Ethel Shanas, Handbook of Aging and the Social Sciences (New York: Van Nostrand Reinhold, 1985), p. 520.

- the perceived need for retirement incentives in order to avoid legal challenges to forced retirement or termination,
- an interest in maintaining a balanced age structure in the work force, with an older work force often perceived as less productive and more costly in terms of compensation and fringe benefits,
- union pressures and advantages to companies in offering increases in fringe benefits rather than wage increases, and
- employee preferences, which encourage employers to offer early retirement whenever the above factors come into play.

Examples of the kinds of incentives and options that have been incorporated in retirement plans to encourage early retirement or discourage employment beyond the plans' "normal" retirement age are presented in table 5.1.

Table 5.1: Examples of Incentives/ Options That Encourage Early Retirement

Eligibility Before Age 65	Men have been able to draw reduced benefits from Social Security at age 62 since 1961 (and women since 1956). The retirement eligibility ages under other programs (military at any age after 20 years, private and state and local pensions with reduced benefits often at age 55, full benefits in civil service at age 55 with 30 years of service, and IRAs, Keoghs, and 401(k)'s at 59-1/2) have also made it possible for employees to retire early.
Plans That Offer Larger Benefits at Younger Ages	Many plans offer benefits before the normal retirement age that are not reduced on an actuarial basis. That is, the reduction in benefits is not large enough to make up for the increased number of years over which benefits would be received. This results in subsidizing earlier retirement since an individual would lose pension benefits by working longer. Other examples of incentives include the rule in many plans that employees are not given credit for service beyond the normal retirement age when computing retirement benefits.
ERIPS and Early Outs	In the 1980's a new device for encouraging retirement, the early retirement incentive program (ERIP), was added to employer-sponsored pensions. Under an ERIP, workers eligible for early retirement are offered additional benefits to make early retirement even more attractive. Pension plans also may supplement an individual's pension with additional funds until the retiree becomes eligible for Social Security. Public employers have also used "early out" plans in recent years as a means of reducing payrolls without concentrating layoffs among younger workers.
Work Disincentives Under Social Security	Pension recipients also face financial disincentives to taking a second full-time job. The Social Security retirement test reduces benefits by $1 for every $2 in annual earnings above an exempt amount for beneficiaries under age 65. Although benefits lost in this way may in many cases be regained later by the upward readjustment that occurs at age 65 for each month of reduced benefits, few beneficiaries appear to be aware of this provision. After age 65 the Social Security system encourages retirement by giving less than actuarially fair benefits for later retirement.

Our data, presented in chapters 2 and 3, show the impact these different incentives and options have had on the labor-force participation of older workers. Individuals have increasingly accepted employer-sponsored

pensions at ages younger than 65, and recipients of employer-sponsored pensions were less likely to be in the labor force. In contrast, most individuals not receiving employer-sponsored pensions under age 65 remained in the labor force. These findings are consistent with other research which has shown that economic incentives in public and private plans to retire early, coupled with the size of the pension, are major determinants of the retirement decision.[3]

Changes in Public Policy Toward the Age of Retirement

Even though there has been an ongoing liberalization in pension plans toward encouraging early retirement, there has also been a growing awareness of the increasing cost of financing retirement benefits for persons who are retiring earlier and living longer. Coupled with a concern over age discrimination against older workers, this has resulted in certain legislative changes that encourage a greater participation of older persons in the labor force.

One recent change is the 1983 amendments to the Social Security Act, which will gradually extend the normal age for receiving retirement benefits from 65 to 67. This change was intended to increase the labor-force participation of older workers of the "baby boom" generation as well as to reduce Social Security costs.[4] As a result of these amendments, workers retiring at age 62 will experience a 30-percent reduction in benefits compared to the current 20-percent reduction. Individuals retiring at age 65 will have a 13-percent reduction compared to no reduction today.[5]

These amendments also increased the delayed retirement credit for workers who postpone retirement beyond the normal retirement age. Beginning in 1990 delayed retirement credits for employment after age 65 will be gradually increased. Consequently, this disincentive to employment will virtually be eliminated.[6] In the same year the rate of

[3]See Clark, Robert L., and David T. Barker, Reversing the Trend Toward Early Retirement (Washington, D.C.: American Enterprise Institute, 1981), p. 35; Fields, Gary S., and Olivia S. Mitchell, Retirement, Pensions and Social Security. (Cambridge, Massachusetts: The MIT Press, 1984, p. 129; and Quinn, Joseph F., and Richard V. Burkhauser, "Influencing Retirement Behavior: A Key Issue for Social Security", Journal of Policy Analysis and Management, Fall 1983, pp. 1-13.

[4]Binstock and Shanas, p. 521.

[5]Myers, Robert J., Social Security (Homewood, IL: Richard D. Irwin), pp. 60-61, 291.

[6]The delayed retirement credit will gradually increase from the current 3 percent per year to 8 percent in 2008. An actuarially fair increase would be slightly higher—between 9 and 10 percent. Myers, p. 95.

reduction in benefits for each dollar earned above the maximum permitted will fall from one-half to one-third for individuals beyond normal retirement age. Below this age the rate of reduction in benefits per dollar of earnings will remain at 50 percent.

The Age Discrimination in Employment Act was enacted in 1967 to promote the employment of older persons based on their ability rather than age and to prohibit arbitrary age discrimination in employment.[7] In 1978 the act was amended to raise the age of mandatory retirement from 65 to 70 for the private sector and for state and local government employees and to remove the upper age limit for federal employees.

A proposed change which would also affect the employment of older workers relates to the cessation of the accrual of pension benefits for an employee after the age of 65. This feature of pension plans has been criticized as being inconsistent with the 1978 amendments. Specifically, the Equal Employment Opportunity Commission, which has jurisdiction of the administrative and enforcement authority under the Age Discrimination in Employment Act, has proposed regulations requiring pension plans to continue to accrue benefits for workers age 65 and over.[8]

In addition to the recently enacted legislation for new civil servants, the Congress is also considering legislation that would raise the normal retirement age or add disincentives to retire early under the Civil Service Retirement System and the military retirement system. The administration's fiscal year 1987 budget proposed a series of changes in the current civil service system that would cut costs, including a 2-percent reduction in benefits for each year an employee retired before age 62.[9]

Numerous studies have recommended changes to the military retirement system. Some have specifically targeted the availability of retirement benefits at 50 percent of active pay after 20 years of service regardless of age. The 1986 Defense Authorization Act required the administration to submit legislation to reduce military retirement accrual costs by

[7]Special Committee on Aging, United States Senate, Developments in Aging, 1984, Volume 1 (Washington, D.C.: U.S. Government Printing Office, 1985), pp. 111-112.

[8]Special Committee on Aging, United States Senate, Developments in Aging: 1985, Volume 1 (Washington, D.C.: U.S. Government Printing Office, 1986), pp. 120-122.

[9]Office of Management and Budget, Budget of the United States Government, Fiscal 1987 (Washington, U.S. Government Printing Office, 1986), pp. 5-115-116.

$2.9 billion in 1986. The Congress is considering the administration's proposals, which were submitted in November 1985, as well as other proposals that could affect the age of eligibility for benefits.[10]

Additional options that could discourage early retirement or encourage older worker employment include

- withdrawing the tax-exempt status from private pension plans that provide retirement benefits before age 60 or that do not provide true actuarial reductions for early retirement;[11]
- increasing the Social Security delayed retirement credit from 3 to 8 percent before the year 2007, the date currently scheduled in the 1983 amendments;[12]
- eliminating the Social Security earnings test;[13] and
- developing new methods for combining the receipt of public and private benefits with part-time work.[14]

Proposed Changes in Pension Programs Raise Complex Issues

Some researchers predict that most people will choose to accept benefit cuts rather than delay retirement in response to the 1983 Social Security Act Amendments.[15] Numerous additional proposals have been made which could make early retirement more difficult or would encourage delayed retirement. These proposals, however, raise complex issues.

Long- and Short-Term Goals May Be Conflicting

At present both public and private employers offer incentives for early retirement as a means of reducing payrolls, avoiding layoffs of younger workers, or opening up promotion opportunities. The potential conflict between these short-term goals and the long-term goals of encouraging people to work longer can be seen in retirement policies being considered for federal employees. On the one hand, legislation has been recently introduced which would, for a limited time, allow employees at any age

[10]Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options (Washington, D.C.: U.S. Government Printing Office, 1986), pp. 73-76.

[11]Shulz, pp. 22-23.

[12]Older Workers: Prospects, Problems and Policies (Washington, D.C.: National Commission for Employment Policy, 1986), p. 6.

[13]Economic Report of the President (Washington, D.C.: U.S. Government Printing Office, 1986), p. 186.

[14]Older Workers: Prospects, Problems and Policies, p. 6.

[15]Older Workers: Prospects, Problems and Policies, p. 32.

to retire after 25 years of service, at age 50 after 20 years of service, at age 55 after 15 years of service, or at 57 after 5 years of service. Annuities would be reduced 2 percent for each year the retirees were under age 55.[16]

The objectives of this legislation include reducing the federal government's civilian payroll in an orderly and voluntary manner, allowing federal employees to retire early in order to avoid possible adverse effects of federal budgetary conditions, and providing increased job protection and career opportunities for federal employees, especially women, members of minority groups, and young workers.[17] This legislative proposal represents a way to cope with short-term needs to reduce payrolls.

On the other hand, a retirement system for new federal workers hired after December 31, 1983, has recently been enacted.[18] Under this new system the minimum retirement age will be raised gradually from the current 55 years to 57 after 30 years of service. Also, automatic cost-of-living increases will be eliminated for retirees age 61 or younger. Although this new retirement system appears to be moving in the opposite direction from early out proposals, enacting long-term increases and, at the same time, short-term decreases in age of pension eligibility may prove to be the only way to partially reconcile long- and short-term goals.

If labor shortages develop in the next century as the working-age population becomes smaller, there may be less conflict between long- and short-term goals. It is likely that private employers would then voluntarily change their pension programs and employment practices to encourage later retirement.[19] At present some companies that face labor shortages for specific kinds of workers appear to have been successful in offering partial retirement in order to retain the services of valued workers or in recruiting retired persons to return to part-time employment.[20] Efforts of this kind may become more widespread if labor

[16]S. 2197.

[17]S. 2197.

[18]Public Law 98-335.

[19]Palmer, John L., and Stephanie J. Gould, "The Economic Consequences of an Aging Society." Daedalus, Winter 1986, pp. 306-307.

[20]Older Worker Employment Comes of Age: Practice and Potential. (Washington, D.C.: National Commission for Employment Policy, 1985), pp. 37-45.

shortages become more common in the future. Many companies may also discontinue the practice of offering favorable options for early retirement.

However, even if these actions occur, some economists predict that these private sector initiatives may not be sufficient to bring about the desired degree of adjustment in the labor force to an aging population.[21] Consequently, public policies that focus on an older worker employment strategy, including continuing education and job retraining, have been proposed.[22]

Encouraging Later Retirement May Result in Problems for Individuals Who Are Disabled or Unemployed

A different concern about making it more difficult to retire early is that workers who retire at younger ages because of health or employment problems will have smaller benefits than at present. The 1983 changes to Social Security, for example, will mean lower benefits to individuals who retire early because they are unable to find work or have health problems.

Although full Social Security benefits will be available for the severely disabled who qualify for disability insurance benefits, many persons have health problems that are serious enough to make continued work difficult but not serious enough to qualify for disability benefits. Our analysis showed that among men who did not work in 1983 (both pension recipients and nonrecipients), health or disability was cited as the primary reason by 65 percent of those under age 55 and about half of those age 55 to 61 (see table 3.7).[23] In an additional analysis we also found that in this age range about half of the men and over 60 percent of women who reported that they were not employed because of health or disability were not receiving disability insurance benefits in 1984.

Another issue involves older individuals who would like to work but are unable to find employment. Our analysis found that while most pension recipients appear to have left the labor force voluntarily, the unemployment rate for pension recipients age 55 to 61 who remained in the labor force and were looking for jobs was double that of nonrecipients in

[21]Palmer and Gould, pp. 306-307.

[22]Schulz, p. 23. Palmer and Gould, p. 321. The American Association of Retired Persons, Legislative Policy 1985, (Washington, D.C., 1985), p. 13.

[23]Less than 20 percent of women who did not work during 1983 cited health or disability reasons. This low percentage reflects the fact that the great majority of women who did not work were housewives.

1984. Other research has found that older workers are less likely to lose their jobs, but when they do, they generally remained unemployed for longer periods than younger workers. Further, some older workers retire or drop out of the labor force when they become discouraged about not finding work.[24]

There was congressional concern about the effect of increasing the Social Security retirement age for individuals who, for health reasons or because they are in physically demanding jobs, are unable to extend their working careers. As a result, a provision was added to the 1983 Social Security Amendments requiring the Secretary of Health and Human Services to study the implications of these changes and develop recommendations for the Congress as to how to deal with this problem.[25] Some economists have also made proposals that address the issue of how to insure adequate income for persons who must retire early because of poor health or inability to find work. These include extending disability insurance benefits to a more broadly defined group of older persons who have health problems.[26] Policies that have been proposed for older workers who have difficulty in finding work include special job counseling and job finding services tailored to their needs and greater access to job training programs.[27]

In summary, legislative changes as well as numerous proposals have recently been directed at reducing early retirement incentives or removing obstacles to older worker employment. How important it will be to adopt further public policies to encourage later retirement will depend not only on the course of future economic growth, but also on unforeseeable economic or demographic circumstances that might alter the current view of what policies will be needed in the next century. In the short term, however, policies may need to be developed to address the problems of individuals who must retire early due to poor health or inability to find work.

[24]Older Workers: Prospects, Problems and Policies, pp. 13-14; 22.

[25]Public Law 98-21, section 201(d).

[26]Munnell, Alicia, "Financing Options for Social Security." In Policy Issues in Work and Retirement, Herbert S. Parnes, ed. (Kalamazoo, Mich.: The W. E. Upjohn Institute for Employment Research, 1983), p. 236.

[27]Older Workers: Prospects, Problems and Policies, pp. 4-6.

Request Letter

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Telephone: (202) 226-3375

June 12, 1984

Honorable Charles A. Bowsher
Comptroller General
U. S. General Accounting Office
441 G. Street, N. W.
Washington, D. C. 20548

Dear Mr. Bowsher:

As you know Congress has made several changes in the past few years to assure the survival of the Social Security system. One of these changes mandated by the 1983 amendments was a gradual increase in the retirement age from 65 to 67. It is unclear, however, whether Social Security beneficiaries will delay their retirement, or will simply continue to retire early despite a greater reduction in benefits.

The Labor Department and Social Security Administration currently project a continued decrease in labor force participation for older workers. In the past, this trend toward early retirement has generally coincided with the growth of private pension plans (which receive favorable tax treatment) as well as post-retirement benefits, which allow retirement at relatively early ages, such as 55 to 58 years of age. Early retirement is problematic for the Social Security system because of lost payroll contributions and the decrease in the support ratio which will grow in magnitude in the next century as the number of workers is expected to decline.

The goals of the Committee are to assure both adequate retirement income to future older Americans as well as employment opportunities for older Americans who wish to remain in the workforce. Therefore, it is important for the Congress to have information on the interrelated affects of retirement benefits and Social Security policies upon the retirement decision. Discussions between my staff and the staff of the Human Resources Division of GAO indicate that you have been looking at this issue. I would like to request that you examine employee benefits and their affect upon the retirement decision. Specifically, I would like you to examine:

- the incentives and disincentives in private pension plans and Social Security for both early and delayed retirement;
- the extent of knowledge of these incentives/disincentives and their relative impact on the retirement decision and labor force participation of older workers;

- the costs to employers and the public (through lost tax revenues and longer Social Security benefits) of early retirement incentives;

- the impact of early retirement incentives in private pension plans on retirement behavior and whether these incentives result in early retirement;

- the impact of early retirement incentives on Social Security and labor force participation of older workers.

I appreciate your initiative in this area and willingness to undertake such an important study. Please feel free to contact Jorge Lambrinos or other members of my staff as the study proceeds.

Sincerely,

Edward R. Roybal

Edward R. Roybal
Chairman

ERR:eu

Additional Information Relating to the Analysis of the Current Population Survey

The CPS, conducted by the Census Bureau for over 35 years, is the source for official government statistics on employment and unemployment. It also serves as a vehicle for inquiries on subjects other than employment. For example, in March each year, the survey collects data on the sources and amounts of income (including pensions) received during the previous calendar year.[1]

The March CPS questionnaire has two parts. The first part requests information on labor-force status in the week before the questionnaire was administered and demographic traits as of the day the questionnaire was administered. The second part requests information on sources of income, including pensions, and also some labor-force participation information for the previous calendar year. Therefore, our data on age and labor-force participation are as of March 1974, 1979, and 1984, while the pension and other income data are for calendar years 1973, 1978, and 1983. As a result, about one-fourth of the 1983 pension recipients reported as age 65 likely did not reach age 65 until January, February, or March 1984. Moreover, the CPS data do not show when people retired or stopped working. Rather, they show how many people at each age are receiving pension income and their labor-force status.

The CPS, like most household surveys, underestimates income because respondents tend to underreport their income. The degree of underreporting is higher for transfer income, such as pensions and Social Security, than for earned income. The Census Bureau's comparisons of CPS and independent estimates showed that the CPS underestimates the total amount of pension income by 28 percent. The CPS also underestimates the number of private pension recipients by about 18 percent, compared to estimates from the first two interviews of the 1979 research panel of the Income Survey Development Program (a pilot survey for SIPP).[2] However, the major offsetting benefits of the CPS are its large sample size, its wide acceptance, and the fact that it permits analysis of trends over time.

The figures provided in this report are estimates derived from a sample and projected to the total population. As a result, the data must be

[1]For a complete description of the CPS data base, including information on data reliability, see Appendices A and B of U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 146, Money Income Of Households, Families and Persons in the United States: 1983 (Washington, D.C.: U.S. Government Printing Office, 1985).

[2]Vaughan, Denton R., T. Cameron Whiteman, and Charles A. Lininger, "The Quality of Income and Program Data in the 1979 ISDP Research Panel: Some Preliminary Findings," Review of Public Data Use, Vol. 12, 1984, pp. 110-114.

checked for statistical significance. All differences between groups that are cited in the text have passed a hypothesis test at the 0.05 level of significance, where a level of significance is the probability of concluding that the parameters are different when they are in fact identical. A few comparisons that are significant at the 0.10 level are cited with such phrasing as "some evidence indicates."

We applied the Census Bureau's criterion of reporting proportions or means only when the weighted population base includes at least 75,000 cases. Measures computed on smaller bases would have large margins of error. In some cases we combined groups in order to create cell sizes large enough for meaningful analysis.

Pension Receipt by Sex and Age—1983

Populations and numbers in thousands

	Men			Women		
		With pensions			With pensions	
Age	Total population	Number	Percent	Total population	Number	Percent
50	1,066	53	5.0	1,182	25	2.1
51	994	74	7.4	1,084	31	2.9
52	1,080	81	7.5	1,142	20	1.8
53	1,045	86	8.2	1,182	36	3.0
54	1,086	77	7.1	1,109	40	3.6
55	1,079	114	10.5	1,179	68	5.8
56	1,073	149	13.9	1,238	64	5.2
57	1,072	149	13.9	1,176	80	6.8
58	1,103	174	15.8	1,205	71	5.9
59	994	192	19.3	1,190	80	6.7
60	973	215	22.1	1,277	124	9.7
61	1,095	269	24.5	1,096	129	11.8
62	1,029	303	29.4	1,166	158	13.6
63	963	323	33.6	1,187	193	16.2
64	884	314	35.5	1,053	171	16.3
65	880	412	46.8	1,073	242	22.6
66	796	406	51.1	1,026	231	22.5
67	835	398	47.7	951	187	19.6
68	748	346	46.3	925	204	22.1
69	751	304	40.4	987	218	22.1
70	676	273	40.4	965	228	23.6
71 and over	6,063	2,416	39.8	9,617	1,805	18.8

Younger Pension Recipients Are Primarily White, Male, and Have at Least Completed High School

Table IV.1 summarizes the characteristics of pension recipients in each age group. While men are the predominant recipients of pension income compared to women at all ages, this is particularly true in the younger age groups. For example, 67 percent of all pension recipients between the ages of 55 and 61 are men. The smallest proportion of male pension recipients is in the group age 65 and older, but that does not reflect more equality in pension receipt between older males and females than between younger individuals. (As figure 2.1 showed, women of all ages receive pensions at slightly less than half the rate of men.) Rather, the larger proportion of female pension recipients in the oldest group is due mainly to the fact that there are many more women than men in the 65 and older age group.

Whites compose the vast majority of pension recipients across all age groups, followed, in order, by blacks and persons of Spanish origin. Whites have the greatest majority in the 65 and older age groups. In contrast, blacks have their highest proportion of recipients in age groups under 62. It is unclear whether this pattern stems from higher coverage rates among younger blacks than among older blacks or from earlier retirement among blacks who have pensions. The relatively high proportion of individuals of Spanish origin among the pension recipients under age 55 is not statistically significant.

Individuals without a high school diploma are a smaller proportion of pension recipients under age 65 than of those over 65. However, this difference is probably due to lower levels of high school completion among the older population. As shown in table 2.3, persons without high school diplomas have the lowest rate of pension receipt at all ages.

Looking back to 1973 shows that little change had occurred in the gender distribution of pension recipients except that the proportion of females in the small group of recipients under age 55 increased by almost 50 percent by 1983. The proportion of black pension recipients increased significantly for those age 55 to 64, particularly in the 62 to 64 group, where the proportion nearly tripled. Pension recipients at all ages had more education in 1983 than in 1973 (smaller proportions lacked a high school diploma). Throughout the 10-year period, younger recipients were more likely to have completed high school than those over 65.

Table IV.1: Characteristics of Pension Recipients— 1973, 1978, and 1983

Numbers in thousands; characteristics in percents

Age	Number	Sex		Race			No high school diploma	High school plus or some college	College graduate
		Male	Female	White	Black	Spanish origin[a]			
1983:									
50-54	522	71.0	29.0	90.7	7.9	4.8	20.3	63.9	15.8
55-6l	1,879	67.2	32.8	89.1	8.9	1.6	26.7	55.7	17.6
62-64	1,463	64.3	35.7	92.5	6.5	1.4	27.0	57.1	15.8
65 and over	7,672	59.4	40.6	94.6	4.6	1.3	39.4	43.7	16.9
Total	**11,536**	61.8	38.2	93.2	5.7	1.5	34.8	48.3	16.9
1978:									
50-54	459	75.5	24.5	90.6	8.7	1.9	25.9	62.5	11.6
55-61	1,390	72.7	27.3	92.3	7.3	1.6	29.8	54.4	15.8
62-64	1,068	64.9	35.1	93.3	6.2	1.0	38.8	46.7	14.5
65 and over	5,689	59.2	40.8	94.8	4.1	1.0	46.0	37.0	17.0
1973:									
50-54	295	80.6	19.4	94.3	5.7	2.6	24.8	67.9	7.3
55-61	757	64.7	35.3	94.2	5.5	2.1	35.1	47.6	17.4
62-64	599	61.6	38.4	97.5	2.2	1.0	46.2	37.3	16.5
65 and over	3,719	62.5	37.5	95.6	3.7	0.9	53.7	30.5	15.8

[a]Persons of Spanish origin may be of any race.

Younger Retirees Have Larger Pensions Than Older Pension Recipients

Table V.1 shows the proportions of pension recipients receiving different amounts of pension income.[1] Overall, less than 25 percent of male pension recipients and less than 10 percent of females received more than $10,000 in benefits in 1983. More than half of men and almost three-fourths of women received less than $6,000 in annual pension benefits.

Table V.1: Distribution of Pension Recipients by Sex, Age, and Pension Amount—1983

Number in thousands

Sex and age	Number of pension recipients	Percent of recipients by range of pension income			
		$1,000-5,999	$6,000-9,999	$10,000-14,999	$15,000+
Men:					
Total	7,129	53.5	21.9	12.0	12.7
50-54	371	24.9	32.3	22.7	20.1
55-61	1,261	32.0	29.4	19.9	18.8
62-64	940	42.6	23.9	15.5	18.1
65 and over	4,556	64.0	18.5	8.2	9.4
Women:					
Total	4,407	74.3	16.3	7.0	2.5
50-54	152	71.8	16.3	8.8	3.1
55-61	617	64.9	23.3	7.4	4.4
62-64	523	72.9	18.5	6.3	2.4
65 and over	3,116	76.4	14.6	6.9	2.1

Benefits varied with age; only one-fourth of male pension recipients age 50 to 54 and one-third of those age 55 to 61 received less than $6,000, compared to nearly two-thirds of men age 65 and over. Significantly larger proportions of male pension recipients under age 62 received $10,000 or more in benefits as compared to recipients age 65 and over. Among women, there was less variation in the distribution of benefit amounts by age. Less than 12 percent of women who received pensions received more than $10,000 in benefits regardless of age.

Several reasons for the variation in pension income with age have been suggested.[2] In many pension plans that are integrated with Social

[1]The pension amounts may be somewhat understated, especially for recipients under age 65, because some people may have just begun receiving benefits in 1983. The amounts of pension income reported by such people would not be their true annual benefits. Moreover, this problem would be more prevalent among younger pension recipients, which suggests that the true differences between younger and older pension recipients may be even greater than those shown.

[2]Kotlikoff, Lawrence J., and Daniel E. Smith, Pensions in the American Economy (Chicago; National Bureau of Economic Research, 1983), p. 107.

Security, pension benefits are reduced when the recipient begins receiving Social Security benefits.[3] Older pension recipients would be more likely to receive Social Security and, thus, have their private pension benefits reduced. Due to the lack of indexing, the value of many pensions of older recipients, particularly those who are likely to have been receiving benefits for many years, falls behind the benefit levels of younger, more recent pension recipients. Also, older recipients may have had lower earnings during their working years in real terms (inflation adjusted) than more recent, younger benefit recipients.

The lower pension benefit levels of women may stem from a number of factors. Women have lower earnings, on average, than men, which is reflected in their pension benefits. Many women entered the work force late, or interrupted their careers, and, thus, did not accumulate years of service comparable to the years accumulated by men of the same age. As a result, the average women's pension benefit amounts will be lower than men's benefit levels at a given age. Moreover, many women are receiving survivors' benefits, which tend to be lower than retirement benefits.

[3]A pension plan is said to be "integrated" if the benefits or contributions are coordinated with those under Social Security. Hatch, Sarah P., Richard Burkhauser, and Joseph Quinn, Financial Retirement Incentives in Private Pension Plans. (Washington, D.C.: Urban Institute, 1982), p. 75.

Employment-To-Population Ratios for Pension Recipients and Nonrecipients by Sex and Age—March 1984

Sex and age	Pension recipients			Non-recipients
	Total	Civilian	Military	
Men:				
50-54	64.8	38.5	86.9	85.1
55-61	37.4	30.6	62.3	78.9
62-64	17.9	17.0	25.7	58.3
65 and over	10.4	9.9	17.7	19.9
Women:				
50-54	41.8	42.3	[a]	58.4
55-61	25.1	25.3	[a]	47.4
62-64	18.6	18.9	[a]	29.7
65 and over	6.0	6.0	[a]	7.8

[a]Base population is less than 75,000.

Methodology for Developing Revenue Estimates

Our estimates shown in chapter 4 should be considered as illustrative only. Our earnings estimates are based on CPS data on the earnings of pension recipients who continued to work. However, the earnings potential of those who chose not to work was probably lower than this average by some unknown amount. Even if we could estimate potential earnings of retired pension recipients, we have no detailed information about their other sources of income, number of dependents, or expenditures, all of which would affect the amount of additional income tax they would owe.

Estimates of additional income taxes were made in the following way. First, income taxes of nonemployed pension recipients were estimated for persons with two exemptions at the average level of income of nonemployed pension recipients in each sex-age category in the CPS. Total income for each group was converted to adjusted gross income by subtracting the average adjustment taken in 1983 in that income group. Average taxes were calculated using rates from Individual Income Tax Returns 1983, Internal Revenue Service, Statistics of Income Division, November 1985, table 2.3, for persons with two exemptions. Adjustments to income were calculated from table 1.4 of the same publication.

Average earnings of employed pension recipients were next added to the income of nonemployed pension recipients. After subtracting the average adjustment to income at this new income level, average taxes at this new level were calculated. The additional income tax that would be paid was the difference between taxes at the new level and the original level of income. (Original income levels and additional earnings are shown in table VII.1.)

Table VII.1: Income of Nonemployed Pension Recipients and Earnings of Employed Pension Recipients—1983[a]

Sex and age	Income of nonemployed pension recipients	Earnings of employed pension recipients
Men:		
50-54	$22,945	$21,641
55-61	21,669	18,154
62-64	23,724	14,172
Women:		
50-54	18,033	11,921
55-61	22,328	8,820
62-64	22,376	8,736

[a]Source: calculated from the March 1984 CPS.

The reason for using average taxes for persons with two exemptions instead of average taxes for the entire population is that exemptions tend to increase with income over the range of income covered by the estimates. It is unlikely that many pension recipients would acquire new dependents when they return to work; this source of bias can be eliminated by holding the number of exemptions constant. The great majority of male pension recipients are married and would have at least two exemptions; in fact, the average number of children under age 18 among married couples in these age ranges is 0.8 at ages 45-54 and 0.2 at ages 55-64.[1] Therefore, two exemptions may slightly underestimate the average number for men. On the other hand about half of retired female pension recipients were not married—in fact, many at the younger ages are receiving survivors' benefits. As a result, their average number of exemptions may be slightly under two.

Even after holding the number of exemptions constant, use of average tax rates probably continues to underestimate the amount of additional taxes that would accrue at any particular level of additional earnings. This is the case because deductions also increase with income. Some of this increase in deductions should indeed be taken into account; for example, deductions for state and local income taxes, sales taxes, work expenses, and charitable contributions could all be expected to increase. However, in the age group we are considering, increases in mortgage interest and property taxes are likely to be smaller than the average shown at increasing levels of income in the tables used for calculating average taxes.

An alternative method of calculating additional income taxes is to use marginal tax rates, but these vary by filing status, which is unknown. To test the sensitivity of the income tax estimates, alternative estimates were made using marginal rates. In this case, average taxable income was calculated for the original income level of pension recipients, using average adjustments to income shown in table 1.4 of Individual Income Tax Returns 1983 and average taxable income at each level of adjusted gross income from table 1.1 of that publication. It was then assumed that additional taxable income would equal 90 percent of additional earnings, the other 10 percent of earnings being additional deductions or adjustments to total income. All married respondents were then assumed to file jointly; a third of unmarried male respondents and half

[1]U.S. Bureau of the Census, Current Population Reports, Series p-20, No. 388, Household and Family Characteristics, March 1983, Table 3, issued May 1984.

of unmarried female respondents were assumed to be heads of household at ages 50-54; the remainder were assumed to be single. The proportions that were heads of household were assumed to be one-fourth for males and one-third for females at ages 55-61 and one-fourth for both sexes at ages 62-64.

Table VII.2 shows the results of using these two methods of income tax calculation, together with the effects of varying the assumption that the additional earnings of retired pension recipients would be the same as that of pension recipients who were still working. As we expected, using marginal tax rates produces somewhat larger estimates than using average tax rates. However, in using the marginal rates, we may not have adequately allowed for increasing deductions as income increases. In any event the income tax estimates are within 30 percent and the total estimates are within 20 percent of the estimates shown in the chapter. When Social Security taxes are also considered, the level of earnings that retired persons could obtain increases in importance. If earnings of retired pension recipients were 20 percent lower than those of employed recipients, the estimates in the chapter might still be too high. Taking the extremes of the estimates in table VII.2, the range of additional tax revenue is between $450 and $650 million if 10 percent of retired pension recipients returned to work and between $1.1 and $1.6 billion if as many as 25 percent returned.

Table VII.2: Estimates of Average Additional Tax Revenue per Person If Retired Pension Recipients Had Returned to Work, Using Various Tax and Earnings Assumptions

	Using average income tax rates		Using marginal tax rates	
Age[a]	100%[b]	80%[b]	100%[b]	80%[b]
Income tax:				
50-61	$2,800	$2,300	$3,600	$2,700
62-64	2,300	2,000	2,900	2,200
Social Security tax:				
50-61	1,900	1,500	1,900	1,500
62-64	1,500	1,200	1,500	1,200
Total tax revenue:				
50-61	4,700	3,800	5,500	4,200
62-64	3,800	3,200	4,400	3,400

[a]Men and women combined.

[b]Earnings of retired pension recipients returning to work as a percentage of earnings of employed pension recipients.

In addition to the estimates already discussed, we looked at another alternative in which retired pension recipients were assumed to have remained on their former jobs. In this case we assumed that their earnings would have been the same as those of other workers in the same age group who did not receive pensions. If they had remained on their former jobs, the income gain from earnings would be partially offset by the loss of the pension. Calculations of average tax rates were made in the manner previously described for pension recipients who returned to work. The results of these estimates are shown in table VII.3. Because total income gains are smaller due to loss of the pension, additional income tax revenues are smaller than in the case of pension recipients returning to a new job. However, since average earnings are higher among workers who do not receive pensions, Social Security taxes are also higher. These opposing effects yield total tax revenues that fall within the range of estimates presented for pension recipients who returned to work.

Table VII.3: Estimates of Additional Tax Revenues per Person If Retired Pension Recipients Had Remained at Work and Not Accepted a Pension—1983

Age	Income tax	Social Security tax	Total
50-61	$2,200	$2,400	$4,600
62-64	2,100	2,200	4,300

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